

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

June 30, 2008

04509

Los Angeles County, California:

- East Los Angeles College
- Los Angeles City College
- Los Angeles Harbor College
- Los Angeles Mission College
- Pierce College
- Los Angeles Southwest College
- Los Angeles Trade-Technical College
- Los Angeles Valley College
- West Los Angeles College

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# LOS ANGELES COMMUNITY COLLEGE DISTRICT

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## INTRODUCTION

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## LOS ANGELES COMMUNITY COLLEGE DISTRICT

CITY • EAST • HARBOR • MISSION • PIERCE • SOUTHWEST • TRADE • TECHNICAL • VALLEY • WEST

### OFFICE OF THE CHANCELLOR

Marshall 'Mark' Drummond, Chancellor

February 11, 2009

Members, Board of Trustees

Los Angeles Community College District

I have received and reviewed and am pleased to submit the Annual Financial Report of the Los Angeles Community College District (District) for the fiscal year ended June 30, 2008. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditors' Report, the Basic Financial Statements, the Supplemental Financial Information, and Other Supplemental Information as noted in the table of contents. The report also includes all Funds of the Los Angeles Community College District as well as those of student organizations.

The introductory section contains my remarks to the Annual Financial Report and a brief summary of the District's employment and enrollment. The Independent Auditors' Report provides the auditor's opinion on the audit. The Management's Discussion and Analysis provides the management information and analysis on the district's financial changes and condition for the year. The basic financial statements include the three financial statements, as well as the notes to the basic financial statements. Supplementary information includes the combining and individual funds and account group financial statements and schedules, a description of the organization of the District, a schedule of full-time equivalent students and apprenticeship clock hours and a reconciliation of the financial statements to the Annual Financial and Budget report submitted to the State of California. Also included in this section are the independent auditors' reports on the internal accounting and administrative controls of the District as well as the State and Federal compliance required by the California State Department of Finance and the Single Audit Act of 1984. The final section provides the current year's audit findings and recommendations as well as the implementation status of the auditor's prior year recommendations.

The District is responsible for the accuracy, completeness and fairness of the financial statements, including all disclosures. We believe that the data presented are accurate in all material respects and present fairly the financial activities of the District's various Funds, and that the informative disclosures are sufficient to provide an understanding of the District's fiscal affairs. The auditors' opinion included in the annual report reflect our belief.

The District and its nine campuses provide a broad range of educational services to students within the Los Angeles area. The nine Los Angeles community colleges comprise one of the nation's largest community college systems – the result of a movement which had its beginning in the California State Legislature in 1907, the year the Caminetti Bill was passed, permitting high schools to offer postgraduate courses. The Ballard Act of 1917 and the Deering Act of 1929 assured financial support for the State's community colleges.

In March 1931, a separate Los Angeles Junior College District was created and granted a taxing power of its own and was designed to serve a larger area than the city. The Board of Education and the Superintendent of Los Angeles County Schools assumed administrative control of the District. Due to the dramatic expansion during the postwar period, the state's two-year junior colleges were moved away from the secondary education system and into higher education. In 1967, Governor Reagan authorized establishment of a Board of Governors for the California Community Colleges. In that same year, legislation passed which provided for a separate community college Board of Trustees and administration. The first Trustees of the Los Angeles Community College District were sworn into office on July 1, 1969.

The Los Angeles Community College District serves approximately 121,500 students, employs approximately 3,558 full-time and 8,108 part-time personnel and covers a service area of more than 800 square miles.

## Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2008 increased by 6.5% from the previous year. The enrollment figures (credit student headcounts) by campus for the 2007-2008 fiscal years were as follows:

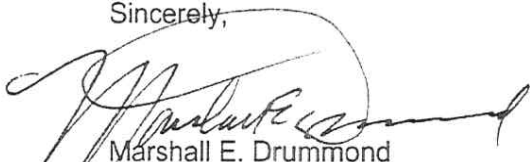
	Fall	Spring
East Los Angeles College	22,287	21,349
Los Angeles City College	16,757	16,799
Los Angeles Harbor College	8,086	8,090
Los Angeles Mission College	8,457	9,120
Pierce College	19,782	19,950
Los Angeles Southwest College	6,034	5,724
Los Angeles Trade-Technical College	12,973	14,216
Los Angeles Valley College	16,736	17,000
West Los Angeles College	9,261	9,462
Instructional Television	474	501
Total districtwide	120,847	122,211

The Los Angeles Community College District's FTES (Full time equivalent student) figures for the fiscal year ended June 30, 2008 the measure by which the State of California funds Community Colleges, increased by 2.2% from the previous year as follows:

	<u>Credit</u>	<u>Noncredit</u>
East Los Angeles College	21,181	1,514
Los Angeles City College	13,137	2,231
Los Angeles Harbor College	6,755	168
Los Angeles Mission College	5,965	362
Pierce College	14,637	293
Los Angeles Southwest College	4,598	452
Los Angeles Trade-Technical College	11,944	492
Los Angeles Valley College	12,531	650
West Los Angeles College	6,984	281
Instructional Television	447	—
Total districtwide	<u>98,179</u>	<u>6,443</u>

Your attention is directed to the Independent Auditors' Report, the Management's Discussion and Analysis, and the Basic Financial Statement sections which represent the complete representation of the district's financial information.

Sincerely,



Marshall E. Drummond  
Chancellor

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KPMG LLP  
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600 Anton Boulevard  
Costa Mesa, CA 92626-7651

## Independent Auditors' Report

The Honorable Board of Trustees  
Los Angeles Community College District  
Los Angeles, California:

We have audited the accompanying basic financial statements of the Los Angeles Community College District (the District) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Los Angeles Community College District as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 8 to the financial statements, effective July 1, 2007, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in accounting for its postretirement healthcare costs.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 13 and schedule of other postemployment benefits funding progress on page 42 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. The management's

discussion and analysis does not include 2007 information that U.S. generally accepted accounting principles require to supplement, although not required to be a part of, the basic financial statements. We have applied certain limited procedures to the 2008 information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial information and other supplemental information are presented for the purpose of additional analysis and are not a required part of the basic financial statements, and the accompanying schedules of expenditures of federal and state financial awards are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The supplemental financial information on pages 43 through 60 and the schedule of expenditures of federal awards on pages 66 through 68 and 70 through 72 have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information on pages 37 through 40 (note 13), 61 through 65, and 69 has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

February 23, 2009



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Management's Discussion and Analysis

June 30, 2008

This section presents Management's Discussion and Analysis (MD&A) of the Los Angeles Community College District's (the District) financial activities during the fiscal year ended June 30, 2008. The MD&A has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section.

#### Financial Highlights

- The assets of the District exceeded its liabilities as of June 30, 2008 by \$517.6 million (net assets). Of this amount, \$81.3 million (unrestricted net assets) may be used to meet the District's ongoing obligations and \$28.0 million (restricted net assets) may be used for the District's ongoing obligations related to programs with external restrictions. The remaining component of the District's net assets represents \$408.3 million of amounts invested in capital assets, net of related debt.
- The District's total net assets increased \$95.4 million during the fiscal year ended June 30, 2008. A significant portion of the increase in the District's net assets was a result of increases in state apportionment, local property taxes, grants and contracts, and investment income during the fiscal year ended June 30, 2008.
- The District's investment in capital assets (net of depreciation) increased by \$534.5 million or 56.5% during the year ended June 30, 2008. Capital construction projects related primarily to the Proposition A and AA Bonds accounted for \$1,179.4 million in capital expenditures (net of depreciation) at June 30, 2008. The District acquired one property valued at \$9.0 million for Los Angeles Mission College and added \$0.2 million for architectural cost for a previous purchase, and acquired two properties valued at \$3.9 million for Los Angeles Trade-Technical College.
- The District's total long-term liabilities increased by \$378.5 million or 36% during the fiscal year ended June 30, 2008. The addition is primarily due to a net \$375.1 million increase in long-term debt, a \$0.4 million decrease in revenue bond payable, a \$0.7 million decrease in capital lease, a \$3.1 million increase in net OPEB obligation, and a \$1.4 million increase in accrued vacation benefits, general liabilities, and workers' compensation.

#### Overview of the Basic Financial Statements

The District follows the financial reporting guidelines established by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. These statements require the District to report its basic financial statements at an entitywide level under the business-type activity reporting model. This MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include four components: (1) Balance Sheet; (2) Statement of Revenues, Expenses, and Changes in Net Assets; (3) Statement of Cash Flows; and (4) Notes to the Basic Financial Statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The Balance Sheet represents the entire District's combined assets, liabilities, and net assets, including Associated Student Organization's financial information. Changes in total net assets as presented on the Balance Sheet are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets represents the revenues received, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District. The

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Management's Discussion and Analysis

June 30, 2008

Statement of Cash Flows presents detailed information about the cash activities of the District during the year. The purpose of these basic financial statements is to summarize the financial information of the District, as a whole, and to present a long-term view of the District's finances.

#### **Balance Sheet**

The Balance Sheet presents the assets, liabilities, and net assets of the District as of the end of the fiscal year. The Balance Sheet is a point-in-time financial statement. The purpose of the Balance Sheet is to present to the readers of the basic financial statements a fiscal snapshot of the District. The Balance Sheet presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). From the data presented, readers of the Balance Sheet are able to determine the assets available to continue the operations of the institution. Readers are also able to determine how much the institution owes vendors, investors, and lending institutions.

Finally, the Balance Sheet provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The second net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final net asset category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

#### **Statement of Revenue, Expenses, and Changes in Net Assets**

Changes in total net assets as presented on the Balance Sheet are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the District, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the District. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Management's Discussion and Analysis

June 30, 2008

### Financial Analysis of the District as a Whole

As of June 30, 2008, the District's net assets have increased by \$95.4 million or 22.6% from \$422.2 million at June 30, 2007 to \$517.6 million at June 30, 2008. The increase in net assets resulted primarily from increases in capital appropriations. Current and other assets decreased by \$18.7 million and capital assets increased by \$534.5 million. Current liabilities increased by \$42.0 million and noncurrent liabilities increased by \$378.5 million.

### Summary Schedule of Net Assets

June 30, 2008 and 2007

	2008	2007	Increase (Decrease)
Assets:			
Current and other assets	\$ 673,147,742	691,831,874	(18,684,132)
Capital assets, net	1,480,066,480	945,584,486	534,481,994
Total assets	2,153,214,222	1,637,416,360	515,797,862
Liabilities:			
Current liabilities	206,540,737	164,581,255	41,959,482
Noncurrent liabilities	1,429,104,998	1,050,636,467	378,468,531
Total liabilities	1,635,645,735	1,215,217,722	420,428,013
Net assets:			
Invested in capital assets, net of debt	408,304,119	307,099,178	101,204,941
Restricted – expendable	28,004,195	42,300,505	(14,296,310)
Unrestricted	81,260,173	72,798,955	8,461,218
Total net assets	\$ 517,568,487	422,198,638	95,369,849

The \$18.7 million decrease in current and other assets is due in part to the \$10.2 million increase in cash and cash equivalents, the \$39.5 million decrease in restricted investments, and the \$10.6 million increase in the rest of the current and other assets. The net decrease in current and other assets is primarily due to an increase in operating expenses and capital construction expenditures.

In 2008, the District spent \$529.5 million on capital assets, capitalized interest of \$33.6 million, and depreciated \$28.6 million of capital assets.

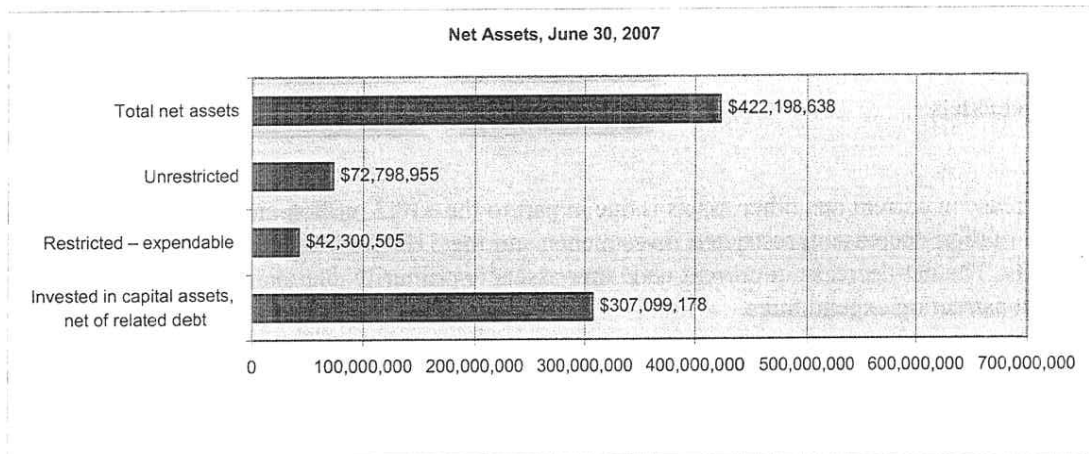
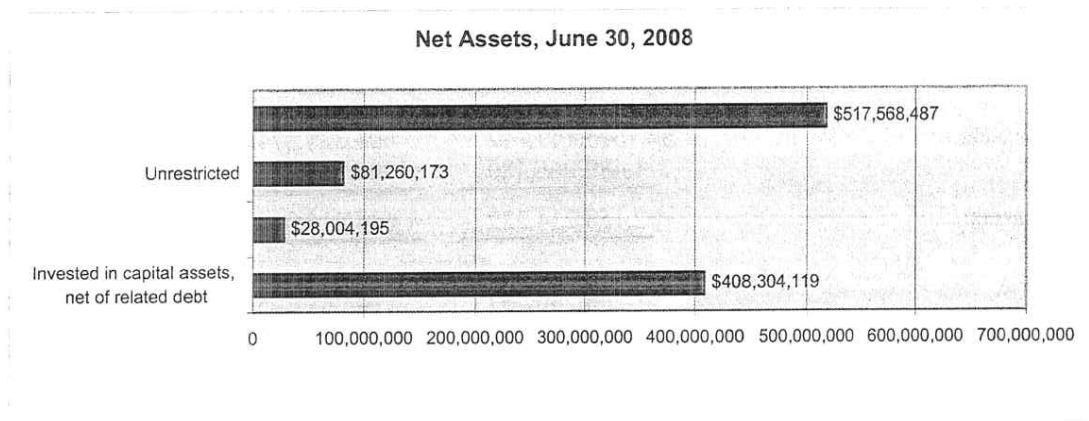
The \$42.0 million increase in current liabilities is primarily due to a \$34.5 million increase in accounts payable as a result of increased construction-related costs and a \$5.5 million increase in current portion of long-term debt.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Management's Discussion and Analysis

June 30, 2008

The \$378.5 million increase in long-term liabilities is primarily due to a net \$375.1 million increase in long-term debt, a \$0.4 million decrease in revenue bond payable, a \$0.7 million decrease in capital lease, a \$3.1 million increase in net OPEB obligation, and a \$1.4 million increase in accrued vacation benefits, general liabilities, and workers' compensation. The \$375.1 million increase in long-term debt liabilities is due to new bond issuances in the year of \$400.0 million, additional original issue premium of \$14.4 million (net of annual amortization), amortization of prepaid interest on advance refunding of \$5.0 million, \$5.4 million additional current portion of long-term debt, and the annual debt services payments of \$38.9 million for the General Obligation (G.O.) Bonds. The District deposited all bond proceeds in the County of Los Angeles Treasury cash and investment pool. The majority of the District's long-term debt is used to fund the construction and acquisition of capital assets.



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Management's Discussion and Analysis

June 30, 2008

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$517.6 million at June 30, 2008. A significant portion of the District's net assets represents \$428.6 million of restricted cash, cash equivalents, and investments for capital projects, \$1,480.1 million of capital assets, and \$1,372.0 million debt of revenue bonds and G.O. Bonds.

### Summary Schedule of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007	Change
Revenues:			
Operating revenues:			
Net tuition and fees	\$ 40,283,964	38,603,895	1,680,069
Grants and contracts, noncapital	94,273,064	83,441,957	10,831,107
Other	34,931,206	33,827,358	1,103,848
Nonoperating revenues:			
State apportionments, noncapital	379,276,954	361,133,602	18,143,352
Property taxes	131,197,171	124,292,391	6,904,780
Investment income	39,385,219	30,292,399	9,092,820
Local tax for G.O. Bonds	77,487,453	61,899,477	15,587,976
Federal financial aid grants, noncapital	69,051,339	63,602,415	5,448,924
State financial aid grants, noncapital	7,091,316	7,405,785	(314,469)
Other	5,617,863	19,213,790	(13,595,927)
Other revenues:			
State apportionments, capital	39,981,534	10,323,197	29,658,337
Local property taxes and revenues, capital	2,189,990	5,218,933	(3,028,943)
Total revenues	920,767,073	839,255,199	81,511,874
Expenses:			
Operating expenses:			
Salaries	414,414,666	384,346,738	30,067,928
Employee benefits	140,298,549	115,326,994	24,971,555
Supplies, materials, and other operating expenses and services	204,717,198	233,680,155	(28,962,957)
Other	37,512,733	22,402,675	15,110,058
Total operating expenses	796,943,146	755,756,562	41,186,584
Nonoperating expenses:			
Interest expense	25,371,257	24,198,111	1,173,146
Other	3,082,821	1,736,484	1,346,337
Total expenses	825,397,224	781,691,157	43,706,067
Change in net assets	\$ 95,369,849	57,564,042	37,805,807

The summary of revenues, expenses, and changes in net assets reflects an increase of \$95.4 million in the net assets at the end of the year as explained below.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

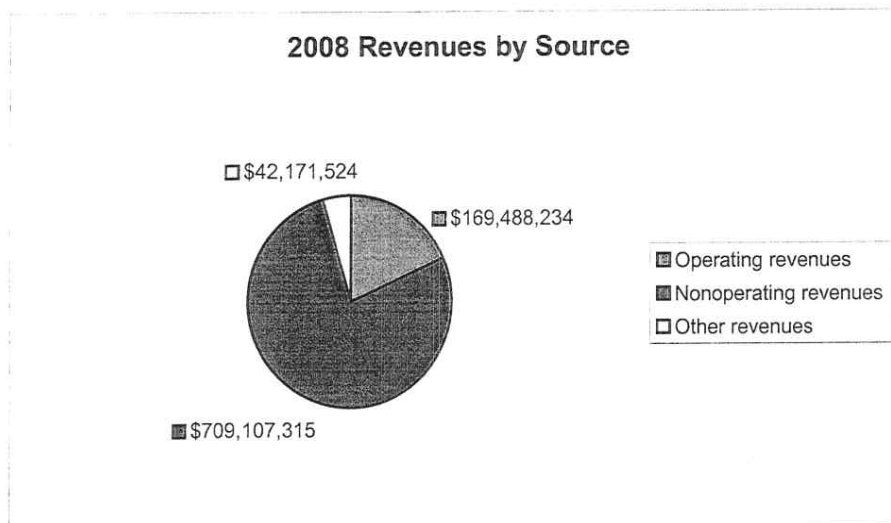
### Management's Discussion and Analysis

June 30, 2008

Operating revenue for tuition and fees, grants, and contracts – noncapital resulted in a net increase of \$13.6 million, which includes a \$1.7 million increase in tuition and fees, a \$6.0 million increase in federal funded programs, a \$0.5 million decrease in state-funded categorical programs, a \$5.3 million increase in local revenue, and a \$1.1 million increase in auxiliary enterprise sales and charges.

Nonoperating revenues increased \$41.2 million. The increase is due in part to the following:

- (1) \$18.1 million increase in state apportionments principally due to an increase in cost of living adjustment (4.53%).
- (2) \$6.9 million increase in local property tax.
- (3) \$9.1 million increase in investment income.
- (4) \$15.6 million increase in local taxes for G.O. bonds to primarily fund principal and interest payments.
- (5) \$5.4 million increase in federal financial aid grants, noncapital.
- (6) \$0.3 million decrease in state and financial aid grants, noncapital..
- (7) \$13.6 million decrease in other nonoperating revenue due to \$8.0 million decrease in one-time general purpose block grant received in the prior fiscal year, \$4.9 million decrease in gain from sale of asset recognized in prior fiscal year, and \$0.7 million decrease in medicare drug subsidy.

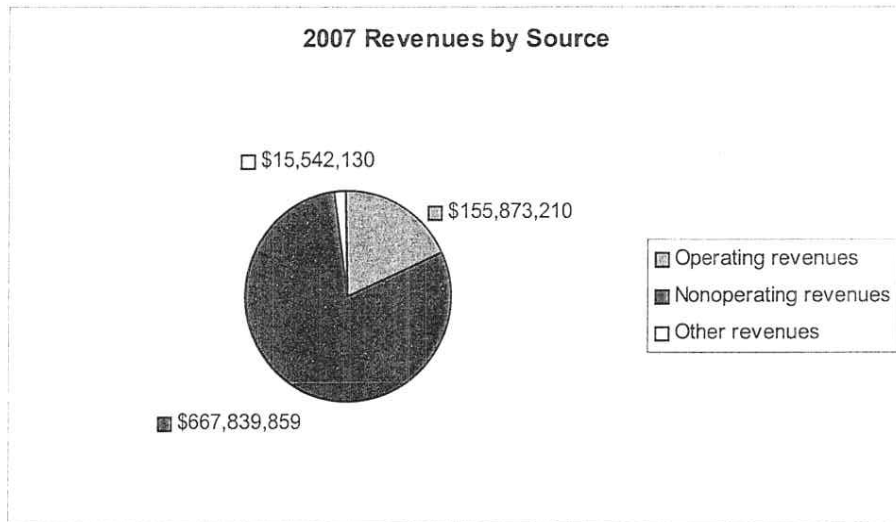




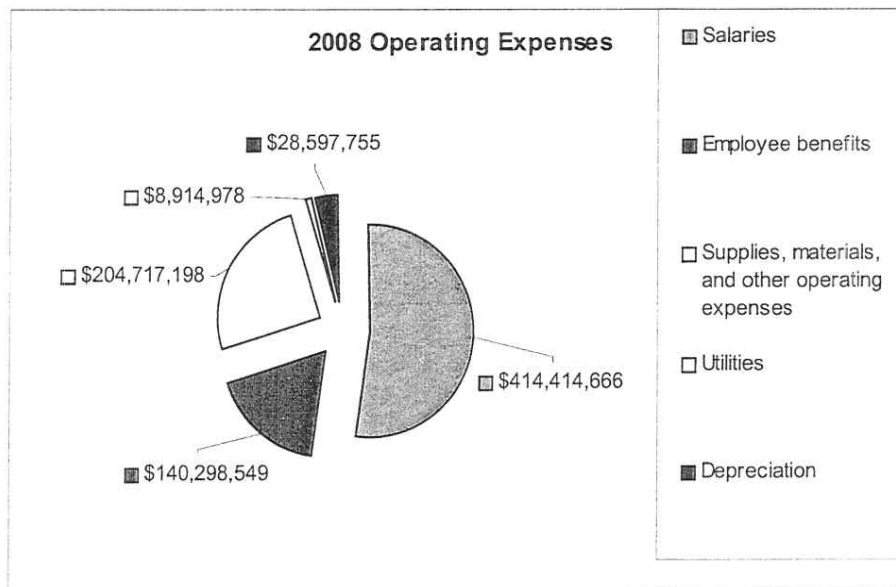
# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Management's Discussion and Analysis

June 30, 2008



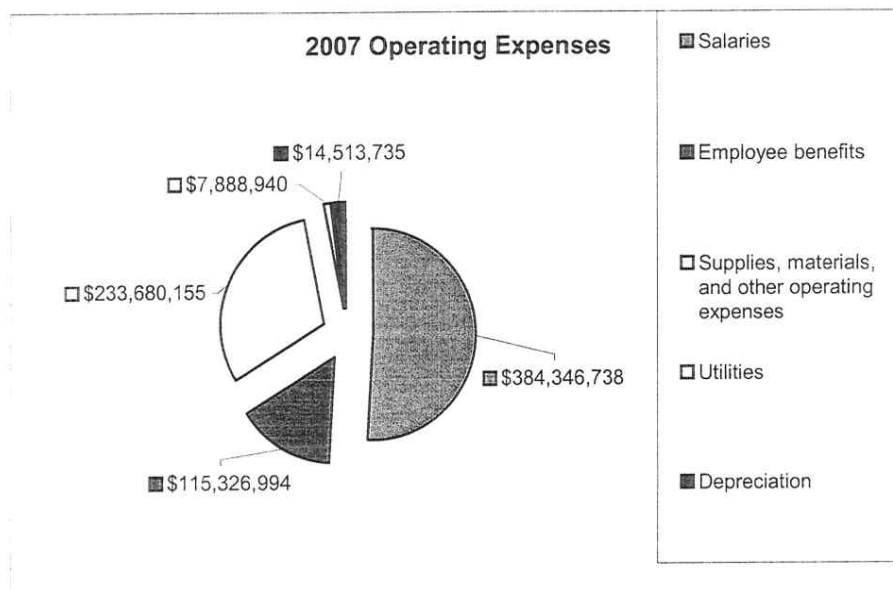
Operating expenses increased \$41.2 million, primarily due to a \$30.1 million increase in salaries resulting from the salary increases of 4.6% granted to all full-time employees. \$25.0 million increase in employee benefits (which includes \$15.4 million related to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*), \$29.0 million decrease in supplies, materials, and other operating expenses and services. \$1.0 million increase in utilities, and \$14.1 million increase in depreciation expense.



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Management's Discussion and Analysis

June 30, 2008



## Capital Assets and Debt Administration

### Capital Assets

The District's investment in capital assets as of June 30, 2008 and 2007 totaled \$1,480.1 million and \$945.6 million, respectively (net of accumulated depreciation). This investment comprises a broad range of capital assets including land, buildings, construction in progress, works of art, infrastructure and land improvement, and furniture and equipment. The following schedules summarize the activities of the District's capital assets for the years ended June 30, 2008 and 2007:

#### Capital Assets, Net

2008

	Balance at July 1, 2007	Additions	Disposals	Transfers	Balance at June 30, 2008
Land	\$ 108,663,886	12,138,914	—	—	120,802,800
Land improvements	31,286,241	—	—	81,321,566	112,607,807
Buildings	440,442,985	1,265,545	—	38,394,238	480,102,768
Construction in progress	521,889,281	546,272,693	—	(132,591,633)	935,570,341
Works of art	518,000	—	—	—	518,000
Furniture and equipment	57,785,829	3,412,055	(9,458)	12,875,829	74,064,255
Infrastructure	3,599,474	—	—	—	3,599,474
<b>Total</b>	<b>1,164,185,696</b>	<b>563,089,207</b>	<b>(9,458)</b>	<b>—</b>	<b>1,727,265,445</b>
Less accumulated depreciation	(218,601,210)	(28,597,755)	—	—	(247,198,965)
<b>Net capital assets</b>	<b>\$ 945,584,486</b>	<b>534,491,452</b>	<b>(9,458)</b>	<b>—</b>	<b>1,480,066,480</b>

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Management's Discussion and Analysis

June 30, 2008

For the year ended June 30, 2008, the District recorded an additional \$529.5 million in capital assets, \$33.6 million in capitalized interest, and \$28.6 million in depreciation. During the year ended June 30, 2008, the District's investments in facility master plans, construction, and building improvements increased due to funding from Proposition A and AA Bonds, which were recorded in the District's Building Fund. The District had a significant number of building projects ongoing funded from Proposition A and AA bond money. A total of \$545.4 million of capital outlay funds was spent for assets under construction. In addition, the District acquired one property valued at \$9.0 million for Los Angeles Mission College and added \$0.2 million for architectural cost for a previous purchase, and acquired two properties valued at \$3.9 million for Los Angeles Trade-Technical College.

In April 2001, the District became the first community college district in the State of California (the State) to pass a property tax financed bond, Proposition A, under the new requirements of the Strict Accountability in Local School Construction Act of 2000. Valued at \$1.245 billion, the District's Proposition A Bond Construction Program stands as one of the largest community college bonds ever passed in California. The bond measure was designed to implement a capital improvement program for each of the nine colleges within the District.

In May 2003, the voters passed another G.O. Bond, Proposition AA, for \$980 million. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges. The District is in a major capital construction program that will continue for the next several years.

In November 2008, the voters passed another G.O. Bond, Measure J, for \$3.5 billion. The bond measure was designed to finance for additional construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

The District is in the seventh year of the Proposition A and the fifth year of Proposition AA Bond construction projects. Approximately, \$1.38 billion has been spent to date for Proposition A and AA Bonds combined for several capital projects at all nine colleges and to refinance outstanding debt (Certificates of Participation Notes) at both the District and colleges. The District anticipates completion of these capital projects by the year 2012. The District has issued to date \$953.5 million of Proposition A and \$615.0 million of Proposition AA Bonds.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Management's Discussion and Analysis

June 30, 2008

#### Long-Term Debt

At June 30, 2008 and 2007, the District had \$1,372.0 million and \$1,011.3 million in long-term debt, respectively. The District's long-term debt increased during the year ended June 30, 2008 as a result of the \$38.9 million debt services payments to matured G.O. Bonds, \$0.4 million for the energy revenue bonds payment, and issuance of new G.O. Bonds of \$400.0 million.

#### Summary of Outstanding Long-Term Debt

June 30, 2008 and 2007

	2008	2007
Revenue Bonds:		
Energy and Water Efficiency Revenue Bonds – Phase IV	\$ 855,000	1,140,000
Energy and Water Efficiency Revenue Bonds – Phase V	364,958	486,611
G.O. Bonds:		
G.O. Bonds Proposition A, 2001 Series	34,590,000	40,260,000
G.O. Bonds Proposition AA, 2003 Series	79,545,000	82,000,000
G.O. Bonds Proposition A and AA, 2004 Series	101,235,000	103,900,000
G.O. Bonds Proposition A, 2005 Series	432,950,000	433,540,000
G.O. Bonds Proposition AA, 2006 Series	322,500,000	350,000,000
G.O. Bonds Proposition A, 2007 Series	400,000,000	—
	<u>\$ 1,372,039,958</u>	<u>1,011,326,611</u>

The District's debt rating from Moody's and Standard and Poors was AA2 and AA– in fiscal year 2007, and AA2 and AA in fiscal 2008, respectively.

Further information regarding the District's capital assets and long-term debt can be found in notes 6, 10, and 12 in the accompanying notes to the basic financial statements.

#### Economic Factors

##### State Economy

On September 23, 2008, with 85 days into the fiscal year, Governor Schwarzenegger signed into law the \$103.4 billion state budget. California community colleges received \$6.359 billion. The funding represents an increase of 2.40% over 2007 – 08. The Governor balanced the \$15.2 billion budget shortfalls through spending cuts and borrowings. The State gave California community colleges approximately 10.70% of Proposition 98 funds. The increases have provided a 0.68% COLA and 2.00% enrollment growth revenue to the District. The District has also set aside a contingency reserve in the amount of \$27.2 million or 5.00% of its projected Unrestricted General Fund revenue for fiscal year 2008 – 09 to cover unforeseen events. The District ended the year with an increase in its unrestricted general fund balance accounts of over 11.30% of its annual expenditures.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Management's Discussion and Analysis

June 30, 2008

Governor Schwarzenegger signed an historic budget package on February 20, 2009 to solve California's \$42 billion deficit that takes the necessary steps to reduce spending, bring in new revenue, improve our business climate and create jobs, and make government more efficient. Additionally, the Governor used his line item veto authority to achieve nearly \$1 billion more in General Fund (GF) savings for the state.

On top of the \$14.9 billion in spending reductions in the budget, the Governor used his line item veto power to save the state an additional \$957 million from the 2009–10 budget GF. This includes: at least a 10% reduction to most of the Constitutional Offices; replacing GF appropriations with federal funds we otherwise would not receive for higher education; and finding additional savings within the California Department of Corrections and Rehabilitation (CDCR). The reduction from most Constitutional Officers' budgets will achieve \$47 million in savings. This reflects equity among all executive branch agencies for the state employee compensation reductions within the budget through furloughs, elimination of positions, overtime reform and reducing paid state holidays. The Constitutional Officers will have the flexibility to implement the savings within their own offices.

The budget includes temporary revenue increases totaling \$12.5 billion through a one cent increase in the state sales tax, an increase in the vehicle license fee to one percent and an increase in the personal income tax that federal stimulus funding will likely help offset. The vehicle license fee will also include an additional ongoing 0.15% increase that will be dedicated to local law enforcement programs. Additionally, the state will bring in revenue through modernizing the State Lottery and bringing in \$5 billion in 2009–10 that will offset the need for additional tax increases or program cuts. For Community Colleges, the Governor eliminated COLA (0.68%) and increased the deferment of apportionment payments due in January through April to \$340 million and moved the payments into July, 2009. The Governor also moved the \$200 million June deferment payment that was to be paid in July, 2009 to October, 2009. The District has set aside a contingency reserve in the amount of \$27.2 million or 5.0% of its projected unrestricted general fund revenue for fiscal year 2008–09 to cover unforeseen events.

#### **Student Enrollment and State Funding**

The student enrollment fee remains at \$20 per unit for fiscal year 2008 – 09. In 2008 – 09, the State provided 2.0% enrollment growth for apportionments for California community colleges. As the economy worsens and the unemployment rate reaches above 8.0%, the District is experiencing an 11.0% surge in enrollment growth for school year 2008 – 09 as more people are returning to community colleges for retraining and education. Because the State only provides funding for a 2.0% enrollment growth, the District will generate 3,000 to 5,000 unfunded full-time equivalent students. The District plans to achieve a 4.3% enrollment growth for fiscal year 2008-09 and also plans to reduce its summer 2009 offerings in order to contain costs.

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## **BASIC FINANCIAL STATEMENTS**

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# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Balance Sheets

June 30, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents (note 3)	\$ 122,499,997	113,579,225
Short-term investments (note 3)	3,722,219	47,894
Accounts receivable, net of allowance (note 4)	82,756,295	72,921,870
Student loans receivable, net of allowance – current portion (note 4)	317,730	396,175
Deposit with bond trustee	15,277,398	15,375,156
Inventory	8,856,965	9,665,618
Bond issuance cost, net	9,148,302	7,027,602
Prepaid expenses and other assets	612,198	1,216,451
Total current assets	243,191,104	220,229,991
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	20,009,286	18,704,132
Restricted investments (note 3)	408,599,343	451,802,819
Student loans receivable, net of allowance – noncurrent portion (note 4)	1,348,009	1,094,932
Capital assets (note 6):		
Land	120,802,800	108,663,886
Land improvements	112,607,805	31,286,241
Buildings	480,102,768	440,442,985
Construction in progress	935,570,343	521,889,281
Works of art	518,000	518,000
Machinery and equipment	74,064,255	57,785,829
Infrastructure	3,599,474	3,599,474
Accumulated depreciation	(247,198,965)	(218,601,210)
Capital assets, net	1,480,066,480	945,584,486
Total assets	\$ 2,153,214,222	1,637,416,360

See accompanying notes to basic financial statements.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Balance Sheets

June 30, 2008 and 2007

Liabilities and Net Assets	2008	2007
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 134,054,474	98,647,599
Deferred revenue	6,233,311	6,436,647
Compensated absences (note 10)	7,346,665	6,702,102
General liability (note 10)	933,312	1,275,011
Workers' compensation (note 10)	5,436,039	4,128,262
Other accrued liabilities	3,492,354	3,399,770
Amounts held in trust for others	518,278	558,336
Revenue bonds payable – current (note 10)	406,653	406,653
Long-term debt – current (note 10)	46,918,520	41,462,422
Capital leases – current (note 10)	1,201,131	1,564,453
Total current liabilities	206,540,737	164,581,255
Noncurrent liabilities (note 10):		
Compensated absences	7,467,788	7,212,295
General liability	5,590,688	4,602,219
Workers' compensation	33,102,961	32,951,208
Net OPEB obligation	3,145,288	—
Revenue bonds payable, net of current portion	813,305	1,219,958
Long-term debt, net of current portion	1,376,184,063	1,001,146,007
Capital leases, net of current portion	2,800,905	3,504,780
Total noncurrent liabilities	1,429,104,998	1,050,636,467
Total liabilities	1,635,645,735	1,215,217,722
Net assets:		
Invested in capital assets, net of related debt	408,304,119	307,099,178
Restricted for:		
Expendable:		
Scholarships and loans	5,832,143	7,817,192
Other special purposes	22,172,052	34,483,313
Unrestricted	81,260,173	72,798,955
Total net assets	517,568,487	422,198,638
Total liabilities and net assets	\$ 2,153,214,222	1,637,416,360

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Tuition and fees (gross)	\$ 65,218,148	65,531,215
Less scholarship discounts and allowances	(24,934,184)	(26,927,320)
Net tuition and fees	40,283,964	38,603,895
Grants and contracts, noncapital:		
Federal	30,759,928	24,742,596
State	47,175,104	47,632,797
Local	16,338,032	11,066,564
Auxiliary enterprise sales and charges	34,931,206	33,827,358
Total operating revenues	<u>169,488,234</u>	<u>155,873,210</u>
Operating expenses:		
Salaries	414,414,666	384,346,738
Employee benefits	140,298,549	115,326,994
Supplies, materials, and other operating expenses and services	204,717,198	233,680,155
Utilities	8,914,978	7,888,940
Depreciation	28,597,755	14,513,735
Total operating expenses	<u>796,943,146</u>	<u>755,756,562</u>
Operating loss	<u>(627,454,912)</u>	<u>(599,883,352)</u>
Nonoperating revenues (expenses):		
State apportionments, noncapital	379,276,954	361,133,602
Local property taxes	131,197,171	124,292,391
State taxes and other revenue	1,337,221	1,307,052
Local tax for G.O. Bonds	77,487,453	61,899,477
Investment income – noncapital	6,232,647	4,322,632
Investment income – capital	33,152,572	25,969,767
Interest expense on capital asset-related debt	(25,371,257)	(24,198,111)
Federal financial aid grants, noncapital	69,051,339	63,602,415
State financial aid grants, noncapital	7,091,316	7,405,785
Other nonoperating revenue	4,280,642	17,906,738
Other nonoperating expense	(3,082,821)	(1,736,484)
Total nonoperating revenues	<u>680,653,237</u>	<u>641,905,264</u>
Income before other revenues, expenses, gains, or losses	53,198,325	42,021,912
State apportionments, capital	39,981,534	10,323,197
Gifts and grants, capital	1,729,314	4,766,261
Local property taxes and revenues, capital	460,676	452,672
Increase in net assets	<u>95,369,849</u>	<u>57,564,042</u>
Net assets:		
Beginning of year	422,198,638	364,634,596
End of year	<u>\$ 517,568,487</u>	<u>422,198,638</u>

See accompanying notes to basic financial statements.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Tuition and fees	\$ 39,996,148	38,468,665
Grants and contracts	98,504,547	88,011,587
Payments to suppliers	(204,296,197)	(238,416,907)
Payments for utilities	(8,914,978)	(7,888,940)
Payments to employees	(411,770,538)	(383,927,536)
Payments for benefits	(134,636,329)	(111,303,656)
Bookstore and cafeteria sales	35,183,470	33,066,634
Other receipts (payments)	(6,951,611)	2,754,398
Net cash used in operating activities	(592,885,488)	(579,235,755)
Cash flows from noncapital financing activities:		
State appropriations	374,084,052	364,260,192
Property taxes	131,197,171	124,292,391
State taxes and other revenues	1,337,221	1,307,052
Federal financial aid grants	69,051,339	63,602,415
State financial aid grants	7,091,316	7,405,785
Other receipts	1,116,511	11,381,206
Net cash provided by noncapital financing activities	583,877,610	572,249,041
Cash flows from capital and related financing activities:		
Proceeds from capital debt	417,534,788	368,304,722
State appropriations, local property taxes, and gifts and grants, capita	42,007,488	15,391,166
Local tax for G.O. Bonds	77,487,453	61,899,477
Purchases of capital assets	(494,434,650)	(200,836,371)
Proceeds from capital assets disposal	—	29,974,680
Principal paid on capital debt and leases	(40,903,498)	(41,238,145)
Interest paid on capital debt and leases	(53,610,626)	(38,385,057)
Bond issuance cost	(2,531,615)	(2,314,141)
Deposit with trustee	97,759	1,482,043
Net cash provided by (used in) in capital and related financing activities	(54,352,901)	194,278,374
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	934,919,806	501,268,149
Interest on investments	34,057,554	26,870,027
Purchase of investments	(895,390,656)	(685,419,399)
Net cash provided by (used in) investing activities	73,586,704	(157,281,223)
Net increase (decrease) in cash and cash equivalents	10,225,925	30,010,437
Cash and cash equivalents – beginning of the year	132,283,357	102,272,920
Cash and cash equivalents – end of year	\$ 142,509,282	132,283,357
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (627,454,912)	(599,883,352)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation expense	28,597,755	14,513,735
Changes in assets and liabilities:		
Receivables, net	(2,427,996)	(4,337,050)
Other assets	808,653	(991,497)
Accounts payable	613,711	4,060,683
Deferred revenue	976,467	4,411,253
Deposits held for others	(203,336)	46,137
General liability	(40,058)	64,231
Workers' compensation	646,770	(375,770)
Compensated absences	1,459,530	2,603,470
Net OPEB obligation	900,056	971,763
Other liabilities	3,145,288	—
	92,584	(319,358)
Net cash used in operating activities	\$ (592,885,488)	(579,235,755)
Noncash capital financing activity:		
Equipment acquired through new capital lease obligations	\$ 549,649	4,114,850
Additions to capital assets included in accounts payable	34,503,263	27,240,046

See accompanying notes to basic financial statements.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

#### (1) Organization and Reporting Entity

The Los Angeles Community College District (the District) is a political subdivision of the State of California and is located within the County of Los Angeles, California (the County). The District's operations consist principally of providing educational services to the local residents of the District. In conjunction with educational services, the District also provides supporting student services such as the operation of campus bookstores and cafeterias. The District consists of nine community colleges located within the County.

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's board of trustees. The District's basic financial statements include the financial activities of the District and the combined totals of the trust and agency funds, which primarily represent Associated Student Organizations and various scholarships within the District. Associated Student Organizations are recognized agencies of the District and were organized in accordance with provisions of the California Education Code to control the administration of student funds. The financial affairs of the Associated Student Organizations are administered under the direction of the college financial administrators at the respective colleges, with the supervision and guidance of the District's deputy chancellor.

#### (2) Summary of Significant Accounting Policies

##### (a) Basis of Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

##### (b) Financial Reporting

The basic financial statements required by Governmental Accounting Standards Board (GASB) Statement Nos. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and 35, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, include a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The District is considered a special-purpose government under the provisions of GASB Statement No. 35. Accordingly, the District has chosen to present its basic financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the District to be reported in a single column. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method. The effect of internal activities between funds or groups of funds has been eliminated from these basic financial statements. The District's operating revenue includes tuition, fees, and federal and state revenues. Operating costs include cost of services as well as materials, contracts, personnel, and depreciation.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

(c) *Cash and Cash Equivalents*

The District participates in the common investment pool of the County, which is stated at cost that approximates fair value. For purposes of the statement of cash flows, the District considers all cash and investments pooled with the County plus any other cash deposits or investments with initial maturities of three months or less to be cash and cash equivalents.

(d) *Inventory*

Bookstore, cafeteria, and supply inventories are recorded at cost on the first-in, first-out basis and expended on the consumption method.

(e) *Properties and Depreciation*

Properties are carried at cost or at appraised fair market value at the date received in the case of properties acquired by donation and by termination of leases for tenant improvements, less allowance for accumulated depreciation. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Land improvements	15 years
Buildings	50 years
Building improvements	20 years
Equipment	3 to 7 years
Vehicles	5 years
Infrastructure	15 years
Leasehold improvements	7 years

The District's capitalization threshold is as follows:

Movable equipment	\$ 5,000 and above
Land, buildings, and infrastructure	50,000 and above

(f) *Accrued Employee Benefits*

The District has accounted for vacation leave benefits that have been earned as a liability within the balance sheet. Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

(g) *Deferred Revenue*

A majority of the deferred revenue balance represents cash collected in advance for tuition and student fees and will be recognized as revenue in the period in which it is earned.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### (h) *Estimates*

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, and expenses in the accompanying basic financial statements. Actual results could differ from those estimates.

### (i) *Reclassifications*

Certain reclassifications have been made to amounts previously reported to conform to the current year presentation. The changes were primarily related to the reclassification of certain capital asset balances. There was no impact on the previously reported changes in net assets or total net assets of the District.

### (3) **Cash and Investments**

Cash and investments at June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents in County Treasury	\$ 124,657,141	117,675,383
Cash in banks	17,852,142	14,607,974
Total cash and cash equivalents	<u>142,509,283</u>	<u>132,283,357</u>
Investments:		
Investments in the County Treasury	403,697,077	443,328,778
Other	8,624,485	8,521,935
Total investments	<u>412,321,562</u>	<u>451,850,713</u>
Total cash and investments	<u>\$ 554,830,845</u>	<u>584,134,070</u>

The California Government Code requires California banks and savings and loan associations to collateralize the District's deposits by pledging government securities as collateral. All deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. At no time during the year did the value of the collateralized property fall below 110% of uninsured deposits. At June 30, 2008, the District had cash in banks with a fair value and bank balance of \$21,526,471 and \$38,128,392, respectively. Of the bank balance, \$4,016,099 was covered by federal depository insurance of which \$34,112,293 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. At June 30, 2007, the District had cash in banks with a fair value and bank balance of \$14,607,974 and \$18,763,176, respectively. Of the bank balance, \$327,443 was covered by federal depository insurance of which \$18,435,733 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. The difference between the carrying value and the bank balance represents items in transit in the normal course of business and cash on hand.

As provided for by the State of California Education Code, amounts are also deposited by the District in the Los Angeles County Treasurer's Pool for the purpose of increasing interest earnings through County's

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

investment activities. At June 30, 2008 and 2007, the District's cash and investments consist primarily of deposits and investments in the Los Angeles County Treasurer's Pool (the County Pool). The District reports amounts involuntarily invested in the County Pool as cash and cash equivalents as they function as a demand deposit account for the District and can be withdrawn from the pool without notice or penalty. The District reports amounts voluntarily invested in the County Pool (such as unspent bond proceeds) as investments given the potential limitations imposed on withdrawals as well as the weighted average life of the County's Pooled investments. Statutes authorize the County to invest pooled investments in obligations of the U.S. Treasury, federal agencies, municipalities, commercial paper rated A- by Standard & Poor's Corporation or A3 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements, and reverse repurchase agreements.

The Los Angeles County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative. Investments held by the County Treasurer are stated at fair value, except for certain nonnegotiable securities that are reported at cost because the effect of valuating the nonnegotiable securities at cost rather than fair market value is immaterial to the District's financial position. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of each participant's position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals. At June 30, 2008 and 2007, the District had \$528,354,218 and \$561,004,160 invested in the Los Angeles County Treasurer's Pool, respectively.

The County Treasurer manages equity and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of 6 months or less and by holding investments to maturity. The County's investment guidelines limit the weighted average maturity of its portfolios to 1.5 years. The weighted average maturity of cash and investments in the Los Angeles Treasurer's Pool was 1.52 years and 1.49 years at June 30, 2008 and 2007, respectively. The Los Angeles County Treasurer's Pool does not maintain a credit rating.



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### (4) Accounts, Notes, and Other Receivables

Accounts, notes, and other receivables at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Tax delinquencies	\$ 22,623,916	18,939,177
Federal and state programs	17,572,381	19,520,582
State lottery	6,640,158	7,754,806
Interest receivable	5,912,685	3,697,016
Accounts receivable – principal apportionment	35,200,946	28,850,957
Accounts receivable – campus students	3,421,339	4,437,625
Accounts receivable – Perkins loan program	3,870,070	3,874,292
Bookstore	2,144,277	2,387,146
Capital outlay	8,599,893	4,087,376
Other	6,538,070	2,186,362
Less allowance for doubtful accounts	(28,101,701)	(21,322,362)
Total, net	\$ 84,422,034	74,412,977

The allowance for doubtful accounts is maintained at an amount sufficient to reserve the possible uncollectibility of other receivable balances. Tax delinquencies represent prior and current year unpaid/unreceived property taxes that were assessed and billed by the County during the 2007 – 2008 year and prior. The District receives tax revenues from the County biannually in December and April. Any amounts that remain unpaid and not received by the District within 60 days of fiscal year-end are considered delinquent. The County's board of supervisors is the taxing authority that levies and collects tax revenues.

### (5) Accounts Payable and Accrued Liabilities

Accounts payable at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Vendors payable	\$ 9,225,206	13,180,052
Capital Outlay and Program Management	92,211,340	57,708,076
Payroll accrual	13,291,803	11,730,114
Grants	13,328,890	10,566,785
L.A. Sheriff's Department	3,274,368	1,400,000
Financial aid payable	57,994	83,501
Election expense payable	2,664,873	3,979,071
Total	\$ 134,054,474	98,647,599

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### (6) Capital Assets

A summary of changes in capital assets is as follows:

	2008				Balance at June 30, 2008
	Balance at July 1, 2007	Additions	Disposals	Transfers	
Capital assets not being depreciated:					
Land	\$ 108,663,886	12,138,914	—	—	120,802,800
Construction in process	521,889,281	546,272,693	—	(132,591,633)	935,570,341
Works of art	518,000	—	—	—	518,000
Total capital assets not being depreciated	631,071,167	558,411,607	—	(132,591,633)	1,056,891,141
Capital assets being depreciated:					
Land improvements	31,286,241	—	—	81,321,566	112,607,807
Buildings	440,442,985	1,265,545	—	38,394,238	480,102,768
Equipment	57,785,829	3,412,055	(9,458)	12,875,829	74,064,255
Infrastructure	3,599,474	—	—	—	3,599,474
Total capital assets being depreciated	533,114,529	4,677,600	(9,458)	132,591,633	670,374,304
Total costs	1,164,185,696	563,089,207	(9,458)	—	1,727,265,445
Less accumulated depreciation	(218,601,210)	(28,597,755)	—	—	(247,198,965)
Total	\$ 945,584,486	534,491,452	(9,458)	—	1,480,066,480

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

	2007				Balance at June 30, 2007
	Balance at July 1, 2006	Additions	Disposals	Transfers	
Capital assets not being depreciated:					
Land	\$ 77,829,024	7,815,563	(25,023,470)	48,042,769	108,663,886
Construction in process	381,708,003	230,455,633	(909,700)	(89,364,655)	521,889,281
Works of art	518,000	—	—	—	518,000
Total capital assets not being depreciated	460,055,027	238,271,196	(25,933,170)	(41,321,886)	631,071,167
Capital assets being depreciated:					
Land improvements	31,286,241	—	—	—	31,286,241
Buildings	398,829,407	868,203	—	40,745,375	440,442,985
Equipment	49,847,515	7,984,585	(622,782)	576,511	57,785,829
Infrastructure	3,551,795	47,679	—	—	3,599,474
Total capital assets being depreciated	483,514,958	8,900,467	(622,782)	41,321,886	533,114,529
Total costs	943,569,985	247,171,663	(26,555,952)	—	1,164,185,696
Less accumulated depreciation	(204,599,471)	(14,513,735)	511,996	—	(218,601,210)
Total	\$ 738,970,514	232,657,928	(26,043,956)	—	945,584,486

### (7) Lease Commitments

The District leases various assets, as lessee, under operating and capital lease agreements. Lease payments under these leases (including month-to-month leases) approximating \$4,633,974 have been charged in the accompanying statements of revenues, expenditures, and changes in net assets.

At June 30, 2008, minimum lease commitments under long-term lease contracts were as follows:

Years ending June 30:	
2009	\$ 2,306,590
2010	1,206,681
2011	1,058,942
2012	800,298
2013 – 2014	85,168
Total	\$ 5,457,679

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

#### (8) Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the California Public Employees' Retirement System (PERS). In addition, certificated employees not participating in STRS may participate in the Public Agency Retirement Systems (PARS) or elect Social Security. Classified employees not participating in PERS may participate in PARS, which is a defined contribution plan. On September 2, 2003, the District offered to every adjunct faculty member who is not a mandatory STRS Defined Benefit Program member the STRS Cash Balance Plan.

##### (a) Plan Descriptions and Provisions

*State Teachers' Retirement System (STRS)* – Full-time certificated employees participate in STRS, a cost sharing multiple-employer contributory public employee retirement system defined benefit pension plan. An actuarial valuation by employer is not available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Employees attaining the age of 60 with 5 years of credited California service (service) are eligible for normal retirement and are entitled to a monthly benefit of 2% of their final compensation for each year of service. Final compensation is defined as the highest average salary earned during 3 consecutive years of service or 1 year highest salary if employee has 25 or more years of service credit or if part of collective bargaining agreement. The plan permits early retirement options at age 55 or as early as age 50 with 30 years of service. Disability benefits of up to 90% of final compensation are available to members with 5 years of service. A family benefit is available if the deceased member had at least one year of service and was an active member or on disability leave. After 5 years of credited service, members become 100% vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

Benefit provisions for STRS are established by the State Teachers' Retirement Law (Part 13 of the California Education Code, Section 22000 et seq.). STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the STRS Executive Office.

*California Public Employees' Retirement System (PERS)* – Full-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. The District is part of a cost sharing pool within PERS. An actuarial valuation by employer is not available. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to all.

Employees are eligible for retirement at the age of 50 and are entitled to a monthly benefit of 1.1% of final compensation for each year of service credit. The rate is increased if retirement is deferred beyond the age of 50, up to age 63. Retirement compensation is reduced if the plan is coordinated with Social Security.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the fund, members' accumulated contributions are refundable with interest through the date of separation.

Benefit provisions for PERS are established by the Public Employees' Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.). PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the PERS Executive Office.

*State Teachers' Retirement System (STRS) – Defined Benefit and Cash Balance Benefit Program (Cash Balance)* – Part-time certificated employees participate in the STRS, a cost-sharing multiple-employer contributory public employee retirement system cash balance benefit program plan offered by CalSTRS. The cash balance benefit program is available for all employees who are hired to work less than half-time in CalSTRS-eligible employment. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

On September 2, 2003, the District offered the Cash Balance program to its adjunct faculty who are not mandatory CalSTRS Defined Benefit Program members. In addition, adjunct faculty have the option of participating in one of the following three retirement plans; CalSTRS Defined Benefit Program, The Public Agency Retirement System (PARS), or Social Security.

*Public Agency Retirement System (PARS) – Alternate Retirement System (PARS-ARS)* – The Omnibus Budget Reconciliation Act of 1990 (Section 11332) extends the social security tax to state and local government employees not participating in a qualified public retirement system. Internal Revenue Code 3121 (b)(7)(F) proposed regulations allow employers to establish an alternative retirement system in lieu of social security tax. Such an alternative system was authorized on June 26, 1991 to be established by the end of calendar year 1991 for certain employees not participating in STRS or PERS.

On December 4, 1991, the District's board of trustees adopted PARS, a defined contribution plan qualifying under Sections 401 (a) and 501 of the Internal Revenue Code, effective January 1, 1992, for the benefit of employees not participating in STRS or PERS who were employed on that date or hired thereafter. The District has appointed Phase 11 Systems, in which Union Bank of California, N.A. serves as the trustee to manage the assets of the PARS plan and serve as the Trust Administrator.

Total contributions to PARS are 7.5%. The employer contribution is 4.0% and the employee contribution is 3.5%. Contributions are vested 100.0% for employees. Employees can receive benefits when they retire at age 60, become disabled, terminate employment, or die.

#### **(b) Contributions Required and Contributions Made**

For fiscal year 2007 – 08, the District is required by statute to contribute 8.25%, 9.306%, 4.25%, and 4.00% of gross salary expenditures to STRS, PERS (pooled), Cash Balance, and PARS-ARS, respectively. Participants are required to contribute 8.00%, 7.00%, 3.75%, and 3.50% of gross salary to STRS, PERS, Cash Balance, and PARS-ARS, respectively.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

The District's contributions for the years ended June 30, 2008, 2007, and 2006 are as follows:

	<u>Contributions</u>	<u>Percentage of required contributions</u>
STRS:		
2008	\$ 16,555,135	100%
2007	16,354,399	100
2006	14,989,011	100
PERS:		
2008	\$ 11,997,904	100%
2007	10,612,625	100
2006	9,536,500	100
Cash Balance STRS:		
2008	\$ 1,841,446	100%
2007	1,883,785	100
2006	1,188,665	100
PARS-ARS:		
2008	\$ 503,431	100%
2007	555,477	100
2006	419,032	100

The District's employer contributions to STRS, PERS, Cash Balance, and PARS-ARS met the required contribution rate established by law.

### (c) *Other PostEmployment Benefits (OPEB)*

The District provides postemployment health care benefits for eligible employees who retire with CalPERS or CalSTRS pension benefits immediately upon termination of employment from the District through the Los Angeles Community College District Postretirement Health Benefits Plan (the Plan). The Plan is a single employer OPEB plan and obligations of the plan members and the District are based on negotiated contracts with the various bargaining units of the District. The District implemented the new reporting requirements of GASB Statement No. 45, *Accounting and Financial Report by Employers for Postemployment Benefits Other Than Pensions (OPEB)* (GASB 45) prospectively for the fiscal year ended June 30, 2008.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

#### Plan Description

Retirees receiving a pension from either CalSTRS or CalPERS are eligible for benefits depending on their most recent date of hire and their benefit eligibility service. The District pays a percentage of the eligible retirees' medical, dental, and vision plan premiums as follows:

	<u>Years of service</u>	<u>Premium paid by district</u>
Hire date:		
Before 2/11/1992	3	100%
Between 2/11/1992 and 6/30/1998	7	100
On or after 7/1/1998	10 – 15	50
On or after 7/1/1998	15 – 20	75
On or after 7/1/1998	20 and more	100

The retirement eligibility for CalPERS retirees is a minimum age of 50 and minimum years of service of 5. The retirement eligibility for CalSTRS retirees is a minimum age of 55 and minimum years of service of 5 or a minimum age of 50 with 30 years of service.

Employees subject to the 2001 agreement between the District and the District's Police Officer's Association may be eligible to receive benefits through Los Angeles County Employees Retirement Association (LACERA) that are paid by the District. Such eligible retirees shall receive medical, dental, and vision benefits. The District pays 100% of LACERA's premiums reduced by 4% for each year of service under LACERA up to 25 years. This reduction only applies to employees with more than 10 years of service under LACERA.

Employees that are not eligible for District-paid contribution are still eligible for retiree coverage under California Assembly Bill 528 (AB528). At retirement, such retirees must pay for coverage at a rate based on blended active and retiree costs. As of this actuarial study, AB528 retiree contributions are expected to cover all costs; so no liabilities are calculated.

The retirement health benefit continues for the lifetime of a surviving spouse and for other dependents as long as they are entitled to coverage under pertinent eligibility rules.

Currently, the District has about 3,900 active full-time employees who are eligible for postretirement health benefits and 3,100 retirees who receive postretirement health benefits.

#### Actuarial Methods and Assumptions

The actuarial valuations involve the use of estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial calculations are based on the types of benefits provided and the pattern of cost sharing between the District and plan members at the time of each valuation. The projection of these benefits is for financial reporting purposes only and does not

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Basic Financial Statements

June 30, 2008 and 2007

explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the District and plan members in the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5.88% blended discount rate based on the assumed long-term return on Plan assets and employer assets. A 3.0% price inflation and a 3.25% wage inflation assumptions were used as well as an annual medical and dental/vision cost trend rate of 10% and 4%, respectively, initially, reduced by decrements to an ultimate rate of 5% and 4%, respectively, after 7 years. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

#### **Funding Policy**

The contribution requirements are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. Additionally, the District's board of trustees adopted a resolution dated April 23, 2008 (com No. BF2) to establish an irrevocable trust with CalPERS to prefund a portion retiree health benefit costs.

The Trust will be funded with annual contributions to the trust of 1.92% of the total full-time salary expenditures in the District. Additionally, the District will direct an amount equivalent to the federal Medicare Part D subsidy returned to the District each year into the trust fund.



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### Annual OPEB Costs and Net OPEB Obligation

Before the implementation of GASB 45, the District's expenses for postretirement health benefits were recognized only when paid. The District's annual OPEB cost (expense) is now calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period of 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan for the year ended June 30, 2008:

Annual OPEB cost for the year (ARC)	\$ 41,228,000
Contributions made for the year	(38,082,712)
Increase in net OPEB obligation	3,145,288
Net OPEB obligation, beginning of the year	—
Net OPEB obligation, end of year	\$ 3,145,288

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2008 is as follows (since this is the first year of implementation, only the current year information is presented):

Fiscal year ended	Annual OPEB costs	Percentage of annual OPEB costs contributed	Net OPEB obligation
6/30/2008	\$ 41,288,000	97.37%	3,145,288

### Funded status information

The District's funding status information is illustrated as follows:

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2007	\$ —	633,142,000	633,142,000	—%	\$ 269,607,861	234.84%

As of June 30, 2008, the District has set aside approximately \$12.3 million in an external trust fund and the fair value of the trust fund as of June 30, 2008 was approximately \$11.5 million.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### (9) Commitments and Contingencies

The District receives a substantial portion of its total revenues under various governmental grants, all of which pay the District based on reimbursable costs as defined by each grant. Reimbursement recorded under these grants is subject to audit by the grantors. Management believes that no material adjustments will result from the subsequent audit of costs reflected in the accompanying basic financial statements.

The District is a defendant in various lawsuits at June 30, 2008. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the basic financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. At June 30, 2008, the total value of these outstanding commitments is \$346,798,241.

### (10) Long-Term Liabilities

The following is a summary of long-term liabilities of the District for the years ended June 30, 2008 and 2007:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008	Due within one year
G.O. Bonds 2001 Series A	\$ 40,260,000	—	(5,670,000)	34,590,000	6,775,000
G.O. Bonds 2003 Series A, B, and C	82,000,000	—	(2,455,000)	79,545,000	2,505,000
G.O. Bonds 2004 Series A and B	103,900,000	—	(2,665,000)	101,235,000	2,745,000
G.O. Bonds 2005 Series A	433,540,000	—	(590,000)	432,950,000	605,000
G.O. Bonds 2006 Series E	350,000,000	—	(27,500,000)	322,500,000	14,000,000
G.O. Bonds 2007 Series A	—	400,000,000	—	400,000,000	17,000,000
Unamortized premiums bond	53,126,489	17,534,788	(3,111,996)	67,549,281	3,288,520
Deferred amount on refunding	(20,218,059)	—	4,951,361	(15,266,698)	—
Revenue bonds	1,626,611	—	(406,653)	1,219,958	406,653
Workers' compensation claims	37,079,470	6,895,579	(5,436,049)	38,539,000	5,436,039
General liability	5,877,230	1,580,082	(933,312)	6,524,000	933,312
Vacation benefits payable	13,914,397	9,973,780	(9,073,724)	14,814,453	7,346,665
Capital lease obligations	5,069,232	549,649	(1,616,845)	4,002,036	1,201,131
Total	<u>\$ 1,106,175,370</u>	<u>436,533,878</u>	<u>(54,507,218)</u>	<u>1,488,202,030</u>	<u>62,242,320</u>

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007	Due within one year
G.O. Bonds 2001 Series A	\$ 44,890,000	—	(4,630,000)	40,260,000	5,670,000
G.O. Bonds 2003 Series A, B, and C	116,305,000	—	(34,305,000)	82,000,000	2,455,000
G.O. Bonds 2004 Series A and B	103,900,000	—	—	103,900,000	2,665,000
G.O. Bonds 2005 Series A	434,110,000	—	(570,000)	433,540,000	590,000
G.O. Bonds 2006 Series E	—	350,000,000	—	350,000,000	27,500,000
Unamortized premiums bond	37,334,777	18,304,722	(2,513,010)	53,126,489	2,582,422
Deferred amount on refunding	(25,169,421)	—	4,951,362	(20,218,059)	—
Revenue bonds	2,033,264	—	(406,653)	1,626,611	406,653
Workers' compensation claims	34,476,000	6,731,732	(4,128,262)	37,079,470	4,128,262
General liability	6,253,000	899,241	(1,275,011)	5,877,230	1,275,011
Vacation benefits payable	12,942,634	7,673,865	(6,702,102)	13,914,397	6,702,102
Capital lease obligations	2,280,875	4,114,850	(1,326,493)	5,069,232	1,564,453
Total	\$ 769,356,129	387,724,410	(50,905,169)	1,106,175,370	55,538,903

### (a) General Obligation Bonds

On April 10, 2001, the voters of the County passed Proposition A, a \$1.2 billion General Obligation (G.O.) Bond measure.

On June 7, 2001, the District issued the 2001 Series A General Obligation Bonds (Proposition A) in the amount of \$525,000,000 with an average interest rate of 4.63% maturing in 2012. The proceeds of this first series of G.O. bonds are to be used to finance the construction, equipping, and improvement of college and support facilities at nine colleges.

Debt service requirements to maturity of the G.O. Bonds at June 30, 2008 are as follows:

	2001 Series A		
	Principal	Interest	Total
Year ending June 30:			
2009	\$ 6,775,000	1,271,165	8,046,165
2010	7,980,000	966,237	8,946,237
2011	9,245,000	621,737	9,866,737
2012	10,590,000	218,419	10,808,419
Total	\$ 34,590,000	3,077,558	37,667,558

On May 20, 2003, the voters of the County passed Proposition AA, a \$980 million G.O. Bond measure.

On July 29, 2003, the District issued the 2003 Series A, B, and C General Obligation Bonds (Proposition AA) in the amount of \$189,685,000, with various interest rates ranging from 2% to 5% maturing in 2028. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

Debt service requirements to maturity of the G.O. Bonds at June 30, 2008 are as follows:

	2003 Series A, B, and C		
	Principal	Interest	Total
Year(s) ending June 30:			
2009	\$ 2,505,000	3,795,388	6,300,388
2010	2,605,000	3,709,469	6,314,469
2011	2,675,000	3,606,775	6,281,775
2012	2,810,000	3,469,650	6,279,650
2013	2,950,000	3,325,650	6,275,650
2014 – 2018	16,935,000	14,412,438	31,347,438
2019 – 2023	21,565,000	9,648,500	31,213,500
2024 – 2028	27,500,000	3,568,512	31,068,512
Total	\$ 79,545,000	45,536,382	125,081,382

On October 12, 2004, the District issued the 2004 Series A and B General Obligation Bonds (Proposition A & AA) in the amount of \$103,900,000 with various interest rates ranging from 3.17% to 6.44%, maturing in 2030. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2008 are as follows:

	2004 Series A and B		
	Principal	Interest	Total
Year(s) ending June 30:			
2009	\$ 2,745,000	5,112,873	7,857,873
2010	2,845,000	5,010,369	7,855,369
2011	2,950,000	4,897,462	7,847,462
2012	3,070,000	4,774,293	7,844,293
2013	3,200,000	4,640,376	7,840,376
2014 – 2018	18,305,000	20,808,622	39,113,622
2019 – 2023	23,300,000	15,626,740	38,926,740
2024 – 2028	30,260,000	8,453,271	38,713,271
2029 – 2030	14,560,000	843,663	15,403,663
Total	\$ 101,235,000	70,167,669	171,402,669

On March 22, 2005, the District issued the 2005 Series A G.O. Refunding Bonds (Proposition A) in the amount of \$437,450,000 with various interest rates ranging from 3% to 5%, maturing in 2026. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

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The net proceeds from the sale of the 2005 Series A G.O. Refunding Bonds in the amount of \$437,450,000 plus the original issue premium of \$34,870,964 will be applied to advance refunding of the refunded bonds of \$456,743,623, to make a deposit into the District's Building Fund of \$12,330,000, to make a deposit into the District's Debt Service Fund of \$220,000, and to pay the cost of issuance for these bonds in the amount of \$3,027,341.

Debt service requirements to maturity of the G.O. Bonds at June 30, 2008 are as follows:

	2005 Series A		
	Principal	Interest	Total
Year(s) ending June 30:			
2009	\$ 605,000	21,705,162	22,310,162
2010	625,000	21,686,713	22,311,713
2011	645,000	21,666,857	22,311,857
2012	665,000	21,646,400	22,311,400
2013	12,715,000	21,321,468	34,036,468
2014 – 2018	91,315,000	94,204,430	185,519,430
2019 – 2023	149,890,000	64,217,500	214,107,500
2024 – 2026	176,490,000	18,160,250	194,650,250
Total	\$ 432,950,000	284,608,780	717,558,780

On October 10, 2006, the District issued the 2006 Series E G.O. Bonds (Proposition AA) in the amount of \$350,000,000 with various interest rates ranging from 3.4% to 5.0%, maturing in 2032. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

Debt service requirements to maturity of the G.O. Bonds at June 30, 2008 are as follows:

	2006 Series E		
	Principal	Interest	Total
Year(s) ending June 30:			
2009	\$ 14,000,000	15,033,199	29,033,199
2010	7,875,000	14,634,354	22,509,354
2011	8,145,000	14,345,964	22,490,964
2012	8,430,000	14,040,274	22,470,274
2013	8,750,000	13,700,236	22,450,236
2014 – 2018	51,260,000	62,093,214	113,353,214
2019 – 2023	63,165,000	48,422,375	111,587,375
2024 – 2028	80,615,000	30,534,375	111,149,375
2029 – 2032	80,260,000	8,270,250	88,530,250
Total	\$ 322,500,000	221,074,241	543,574,241

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

On October 10, 2007, the District issued the 2007 Series A G.O. Bonds (Proposition A) in the amount of \$400,000,000 with various interest rates ranging from 4% to 5%, maturing in 2033. The bond measure was designed to finance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District.

Debt service requirements to maturity of the G.O. Bonds at June 30, 2008 are as follows:

	2007 Series A		
	Principal	Interest	Total
Year(s) ending June 30:			
2009	\$ 17,000,000	19,437,725	36,437,725
2010	10,000	19,097,525	19,107,525
2011	160,000	19,094,125	19,254,125
2012	255,000	19,085,825	19,340,825
2013	415,000	19,072,425	19,487,425
2014 – 2018	11,545,000	94,564,713	106,109,713
2019 – 2023	25,320,000	89,334,000	114,654,000
2024 – 2028	54,535,000	84,215,625	138,750,625
2029 – 2033	290,760,000	37,883,000	328,643,000
Total	\$ 400,000,000	401,784,963	801,784,963

### (b) Advance Refunding Bonds

The District issued \$437,450,000 of 2005 Series A, aggregate principal amount of its G.O. Refunding Bonds, 2001 Election to advance refunding of the District's General Obligation Bonds, 2001 Election, Series A (Refunded Bonds). The Refunded Bonds were issued on June 20, 2001, pursuant to an authorization approved by more than 55% of the voters voting at an election held within the District on April 10, 2001.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of \$31,358,623. This difference, reported in the accompanying basic financial statements as part of the long-term debt, is being charged to interest expense through June 30, 2012, the final maturity dates of the Refunded Bonds using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 21 years by \$13,711,449 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,871,827.

### (c) Revenue Bonds

On March 1, 1995, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase IV, Series 1995A, for funding of energy conservation design and construction projects at Los Angeles Pierce College in the amount of \$4,063,000. Until the termination date on October 1, 2010, the amount of \$285,000 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2008 and 2007, \$855,000 and \$1,140,000 was outstanding, respectively.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

On June 1, 1996, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase V, Series 1996 A, for funding of energy conservation design and construction projects at Los Angeles Southwest College in the amount of \$1,581,488. Until the termination date on August 1, 2010, the amount of \$121,653 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2008 and 2007, the outstanding balance was \$364,958 and \$486,611, respectively.

Debt service requirements to maturity of the revenue bonds at June 30, 2008 are as follows:

	Revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2009	\$ 406,653	—	406,653
2010	406,653	—	406,653
2011	406,652	—	406,652
Total	\$ 1,219,958	—	1,219,958

### (d) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2008 are as follows:

	Lease purchase financing		
	Principal	Interest	Total
Years ending June 30:			
2009	\$ 1,201,131	273,420	1,474,551
2010	1,000,371	177,476	1,177,847
2011	952,670	103,458	1,056,128
2012	766,490	33,808	800,298
2013 – 2014	81,373	3,795	85,168
Total	\$ 4,002,035	591,957	4,593,992

### (11) Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for up to a maximum of \$750,000 for each workers' compensation claim, \$1,000,000 per employment practices claims, and \$500,000 for each general liability claim.

The District currently reports all of its risk management activities in the balance sheets. The balance of all outstanding workers' compensation and incurred general liability claims is estimated based on information provided by an outside actuarial study performed in 2008. The amount of the outstanding liability at June 30, 2008 and 2007 includes estimates of future claim payments for known cases as well as provisions



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

for incurred but not reported claims and adverse development on known cases, which occurred through that date.

Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment yield assumption at 1.5%.

Changes in the balances of workers' compensation and general liability claims during fiscal years ended June 30, 2008 and 2007 were as follows:

	<u>Balance at July 1, 2007</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at June 30, 2008</u>
Workers' compensation	\$ 37,079,470	6,895,579	(5,436,049)	38,539,000
General liability	5,877,230	1,580,082	(933,312)	6,524,000

	<u>Balance at July 1, 2006</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at June 30, 2007</u>
Workers' compensation	\$ 34,476,000	6,731,732	(4,128,262)	37,079,470
General liability	6,253,000	899,241	(1,275,011)	5,877,230

During the years ended June 30, 2008 and 2007, the District made total premium payments of approximately \$1,272,491 and \$1,529,723, respectively, for general liability and property claims.

### (12) Subsequent Events

On September 9, 2008, the District issued \$291,500,000 aggregate principal amount in G.O. Bonds, 2001 Election (Proposition A) 2008 Series E-1 and E-2 and \$364,915,000 aggregate principal amount in G.O. Bonds, 2003 Election (Proposition AA) 2008 Series F-1 and F-2, with various interest rates ranging from 3% to 5%, maturing in 2028. The proceeds of this seventh series of G.O. Bonds are to be used to finance the construction, equipping, and improving of college and support facilities at nine colleges.

On July 24, 2008, the District purchased land for Los Angeles Trade-Technical College in the amount of \$2,010,397 using Proposition AA fund.

On August 14, 2008, the District purchased land for Los Angeles Trade-Technical College in the amount of \$2,497,235 using Proposition AA fund.



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

On November 4, 2008 the voters passed Measure J which gives the District authorization to issue \$3.5 billion in G.O. Bonds to complete its various construction projects, property acquisition, and improvement of colleges and support facilities at various campuses of the District.

### (13) Supplementary Information – Local Tax Assessment and Valuation (Unaudited)

#### *Assessed Valuations*

The assessed valuation of property in the District is established by the County Assessor, except for public utility property, which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. (See constitutional and statutory limitations on taxes and appropriations.)

The California state-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from state sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals, and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the state for such exemptions.

#### Summary of Assessed Valuations

Fiscal years 2003-04 through 2007-08

<u>Fiscal year</u>	<u>Local secured</u>	<u>Utilities</u>	<u>Unsecured</u>	<u>Total before redevelopment</u>	<u>Total after redevelopment</u>
2003-04	\$ 357,678,671,379	489,141,868	25,293,229,310	383,461,042,557	355,170,843,908
2004-05	386,483,327,672	481,361,281	24,891,908,667	411,856,597,620	383,631,546,830
2005-06	424,936,577,595	438,294,291	25,212,393,251	450,587,265,137	413,667,345,171
2006-07	471,972,620,397	384,707,093	25,121,583,359	497,478,910,849	428,404,996,446
2007-08	516,208,218,055	137,563,856	26,937,693,495	543,283,475,406	491,502,037,662

Source: California Municipal Statistics, Inc.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Notes to Basic Financial Statements

June 30, 2008 and 2007

**Secured Tax Charges and Delinquencies**

For the District's Existing Debt Service Levy<sup>(1)</sup>

	<b>Secured tax charge</b>	<b>Amount delinquent June 30</b>	<b>Percentage delinquent June 30</b>
2003-04	\$ 99,367,349	2,180,522	2.19%
2004-05	107,524,287	2,528,799	2.35
2005-06	117,758,299	3,038,347	2.58
2006-07	128,497,217	4,851,301	3.78
2007-08	142,179,036	7,110,704	5.00

Source: California Municipal Statistics, Inc.

<sup>(1)</sup> The delinquency levels for the basic (1% of assessed valuation) levy within the District are slightly lower than the rates shown in the table.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### Major Taxpayers and Concentration

The following chart lists the 20 largest property taxpayers located within the boundaries of the District, which together hold property valued at less than 3% of the Assessed Valuation for the District as a whole.

### 2007-08 Largest Local Secured Taxpayers

Property owner		Primary land use	2007-08 Assessed valuation	Percentage of total <sup>(1)</sup>
1.	Douglas Emmett Realty Funds	Office building	\$ 2,544,804,269	0.49%
2.	Arden Realty LP	Office building	1,658,297,240	0.32
3.	Universal Studios Inc.	Motion picture studio	1,370,736,318	0.27
4.	Anheuser Busch Inc.	Industrial	959,063,655	0.19
5.	Warner Brothers Entertainment Inc.	Motion picture studio	601,232,082	0.12
6.	Maguire Partners, 355 S. Grand LLC	Office building	555,772,904	0.11
7.	One Hundred Towers LLC	Office building	554,615,514	0.11
8.	Duesenberg Investment Company	Office building	550,446,845	0.11
9.	CA Colorado Center LLC	Office building	452,157,840	0.09
10.	Trizec 333 LA LLC	Office building	429,000,000	0.08
11.	Topanga Plaza LP	Regional Mall	422,150,409	0.08
12.	Paramount Pictures Corp.	Motion picture studio	415,280,982	0.08
13.	Reef America Reith II Corp BBBB	Office building	412,839,900	0.08
14.	Twentieth Century Fox Film Corp.	Motion picture studio	370,348,931	0.07
15.	Trizec 601 Figueroa LLC	Office building	362,000,000	0.07
16.	Walt Disney Productions Inc.	Motion picture studio	359,690,602	0.07
17.	Century City Mall LLC	Regional Mall	330,470,642	0.06
18.	AP Properties Ltd.	Office building	317,385,437	0.06
19.	1999 Stars LLC	Office building	313,153,362	0.06
20.	Sunstone Century Star LLC	Hotel	306,018,927	0.06
			<u>\$ 13,285,465,859</u>	<u>2.58%</u>

Source: California Municipal Statistics, Inc.

<sup>(1)</sup> 2007-08 local secured assessed valuation was \$516,208,218,055

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Basic Financial Statements

June 30, 2008 and 2007

### *Tax Rates*

The following table sets forth typical tax rates for property within the District for fiscal years 2003 – 04 through 2007 – 08:

#### Historical Tax Rates

Typical tax rate per \$100 of assessed valuation (TRA 0067)

	2003-04	2004-05	2005-06	2006-07	2007-08
Countywide 1%	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
City of Los Angeles	0.050574	0.055733	0.051289	0.045354	0.038051
Los Angeles Unified School District	0.077145	0.088839	0.084346	0.106814	0.123342
Los Angeles Community College District	0.019857	0.018098	0.014288	0.021462	0.008794
County of Los Angeles	0.000992	0.000923	0.000795	0.000663	0.000000
Los Angeles County Flood Control District	0.000462	0.000245	0.000049	0.000520	0.000000
Metropolitan Water District	0.006100	0.005800	0.005200	0.004700	0.004500
Total	<u>1.155130%</u>	<u>1.169638%</u>	<u>1.155967%</u>	<u>1.179513%</u>	<u>1.174687%</u>

Source: California Municipal Statistics, Inc.

**REQUIRED SUPPLEMENTAL INFORMATION**

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**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Schedule of Other Postemployment Benefits (OPEB) Funding Progress and Employer Contribution

For the year ended June 30, 2008

**Schedule of Funding Progress**

The following schedule of funding progress, presented as required supplementary information follows the notes to the financial statements and presents multi-year trend information about whether the Actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

The District funding progress information is illustrated as follows:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
July 1, 2007	\$ —	633,142,000	633,142,000	—%	269,607,861	234.84%

At June 30, 2008, the District has set aside approximately \$12.3 million in an external trust fund and the fair value of the trust fund as of June 30, 2008 was approximately \$11.5 million.

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## **SUPPLEMENTAL FINANCIAL INFORMATION**

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Schedule of Balance Sheet Accounts

June 30, 2008

**Assets**

Cash in County Treasury	\$ 45,557,934
Cash in banks	7,441,573
Cash in revolving fund	161,710
Investments	47,890
Accounts, notes, interest, and loans receivable, net	64,612,047
Due from other funds	6,971,295
Prepaid expenses and other assets	574,486
Total assets	<u>\$ 125,366,935</u>

**Liabilities and Fund Equity**

Liabilities:	
Accounts payable	\$ 38,322,953
Due to other funds	3,857,330
Amounts held in trusts	518,278
Deferred revenue	6,215,278
Total liabilities	<u>48,913,839</u>
Fund equity:	
Restricted	14,183,151
Unrestricted	62,269,945
Total fund equity	<u>76,453,096</u>
Total liabilities and fund equity	<u>\$ 125,366,935</u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2008

Revenues:

Federal revenues:

Higher Education Acts	\$ 8,500,245
Job Training Partnership Act	972,032
Temporary Assistance for Needy Families	1,015,051
Vocational Education Act	4,882,940
Veterans' Education	7,644
College Work Study	1,919,649
Seog	107,268
Pell	128,710
Other	4,190,900
Total federal revenues	<u>21,724,439</u>

State revenues:

State apportionments	355,616,192
Tax relief subvention	1,337,221
State lottery	15,980,901
California Work Opportunity and Responsibility to Kids Program	5,526,674
Extended Opportunity Program	8,164,559
Matriculation Program	8,277,100
Disabled students programs and services	6,417,213
Telecommunication and technology	415,467
Other	16,437,901
Total state revenues	<u>418,173,228</u>

Local revenues:

Local property taxes	131,197,171
Rental and lease income	—
Enrolment fees	17,919,250
Tuition and fees, net of scholarship discounts and allowance	9,373,234
Community service fees	5,398,832
Parking fees	2,129,410
Health service fees	4,058,923
Student fees and charges	1,698,565
Interest	4,598,110
Other	11,547,014
Total local revenues	<u>187,920,509</u>
Total revenues	<u>627,818,176</u>

Expenditures:

Current:

Academic salaries	257,305,796
Classified salaries	141,747,787
Employee benefits	119,193,643
Books and supplies	13,236,522
Contract services, student grants, and other operating expenditure	66,180,336
Capital outlay and equipment replacement	12,710,514
Other	895,609
Total expenditures	<u>611,270,207</u>
Excess of revenues over expenditures	16,547,969

Other financing uses:

Operating transfers out	<u>(15,027,892)</u>
Net increase in fund balance	1,520,077

Fund balances at July 1, 2007	<u>74,933,019</u>
Fund balances at June 30, 2008	\$ <u><u>76,453,096</u></u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Special Revenue Funds

Combined Schedule of Balance Sheet Accounts

June 30, 2008

Assets	Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
Cash in County Treasury	\$ 78,051,971	127,889	—	—	78,179,860
Cash in banks	—	68,287	1,368,037	289,291	1,725,615
Cash in Revolving Fund	—	887	247,920	7,589	256,396
Investments	3,674,329	—	—	—	3,674,329
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts	8,984,226	1,396,653	2,252,496	295,539	12,928,914
Due from other funds	89,011	1,143,328	1,315,263	391,753	2,939,355
Prepaid expenses	36,122	—	1,590	—	37,712
Inventory	—	—	8,721,756	135,209	8,856,965
Total assets	<u>\$ 90,835,659</u>	<u>2,737,044</u>	<u>13,907,062</u>	<u>1,119,381</u>	<u>108,599,146</u>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Accounts payable	\$ 1,324,846	212,025	157,091	35,195	1,729,157
Due to other funds	12,896,156	1,682,039	3,538,476	1,054,518	19,171,189
Deferred revenue	—	—	10,827	—	10,827
Total liabilities	<u>14,221,002</u>	<u>1,894,064</u>	<u>3,706,394</u>	<u>1,089,713</u>	<u>20,911,173</u>
Fund equity:					
Capital projects	76,614,657	—	—	—	76,614,657
Unrestricted	—	842,980	3,600,741	29,668	4,473,389
Reserve for facility improvements and inventory	—	—	6,599,927	—	6,599,927
Total fund equity	<u>76,614,657</u>	<u>842,980</u>	<u>10,200,668</u>	<u>29,668</u>	<u>87,687,973</u>
Total liabilities and fund equity	<u>\$ 90,835,659</u>	<u>2,737,044</u>	<u>13,907,062</u>	<u>1,119,381</u>	<u>108,599,146</u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Special Revenue Funds

Combined Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2008

	Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
<b>Revenues:</b>					
Federal revenues:					
Tuition and fees	\$ —	166,425	—	—	166,425
Other	—	290,493	—	36,943	327,436
Total federal revenues	—	456,918	—	36,943	493,861
State revenues:					
State apportionment	39,981,534	—	—	—	39,981,534
Other	—	7,586,466	—	—	7,586,466
Total state revenues	39,981,534	7,586,466	—	—	47,568,000
Local revenues:					
Food service sales	—	—	—	2,617,409	2,617,409
Bookstore sales	—	—	32,208,254	—	32,208,254
Interest	3,449,118	79,664	—	—	3,528,782
Other	4,560,042	—	3,753	313,130	4,876,925
Total local revenues	8,009,160	79,664	32,212,007	2,930,539	43,231,370
Total revenues	47,990,694	8,123,048	32,212,007	2,967,482	91,293,231
<b>Expenditures:</b>					
Current:					
Academic salaries	37,679	4,471,906	—	—	4,509,585
Classified salaries	2,615,631	2,027,574	5,275,396	932,901	10,851,502
Employee benefits	414,867	1,370,905	1,416,646	151,684	3,354,102
Books and supplies	12,108	279,526	24,024,654	2,059,902	26,376,190
Contract services, student grant, and other operating expenditures	4,028,811	1,085,630	1,941,340	213,336	7,269,117
Utilities	—	—	363,368	12,000	375,368
Capital outlay and equipment replacement:					
Building	42,645,308	—	6,980	—	42,652,288
Equipment	453,636	28,410	135,609	32,822	650,477
Total expenditures	50,208,040	9,263,951	33,163,993	3,402,645	96,038,629
Deficit of revenues over under expenditures	(2,217,346)	(1,140,903)	(951,986)	(435,163)	(4,745,398)
Other financing sources – operating transfers in	6,509,764	1,885,395	710,422	387,953	9,493,534
Net increase (decrease) in fund balances	4,292,418	744,492	(241,564)	(47,210)	4,748,136
Fund balances at July 1, 2007	72,322,239	98,488	10,442,232	76,878	82,939,837
Fund balances at June 30, 2008	\$ 76,614,657	842,980	10,200,668	29,668	87,687,973

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Schedule of Balance Sheet Accounts

June 30, 2008

**Assets**

Cash held with trustee	\$ 1,979,725
Accounts, notes, interest, and loans receivable, net	<u>5,900</u>
Total assets	<u>\$ 1,985,625</u>

**Liabilities and Fund Equity**

Liabilities:	
Other liabilities	\$ <u>—</u>
Total liabilities	<u>—</u>
Fund equity:	
Restricted	<u>1,985,625</u>
Total fund equity	<u>1,985,625</u>
Total liabilities and fund equity	<u>\$ 1,985,625</u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

**Debt Service Fund**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts**

**Year ended June 30, 2008**

Revenues:		
Interest	\$	93,772
Other		<u>2,033,265</u>
Total revenues		<u>2,127,037</u>
Expenditures:		
Current:		
Contract services, student grants, and other operating expenditures		2,033,265
Debt service:		
Principal		56,414,788
Interest		53,610,626
Other		<u>407,545</u>
Total expenditures		<u>112,466,224</u>
Deficit of revenues over expenditures		<u>(110,339,187)</u>
Other financing sources:		
Local tax for G.O. Bonds		<u>110,025,414</u>
Total other financing sources		<u>110,025,414</u>
Net decrease in fund balance		(313,773)
Fund balances at July 1, 2007		<u>2,299,398</u>
Fund balances at June 30, 2008	\$	<u><u>1,985,625</u></u>

See accompanying independent auditors' report.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Post Retirement Health Insurance Fund

Schedule of Balance Sheet Accounts

June 30, 2008

**Assets**

Cash held with trustee	\$ 60,873
Total assets	\$ 60,873

**Liabilities and Fund Equity**

Liabilities:	
Unfunded OPEB payable	\$ 3,145,288
Total liabilities	3,145,288
Fund equity:	
Restricted	(3,084,415)
Total fund equity	(3,084,415)
Total liabilities and fund equity	\$ 60,873

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**  
Post Retirement Health Insurance Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts  
Year ended June 30, 2008

Revenues:		
Interest	\$	<u>491,936</u>
Total revenues		<u>491,936</u>
Expenditures:		
Current:		
Employee benefits		<u>15,391,218</u>
Total expenditures		<u>15,391,218</u>
Deficit of revenues over expenditures		<u>(14,899,282)</u>
Other financing sources:		
Operating transfers in		<u>5,534,358</u>
Total other financing sources		<u>5,534,358</u>
Net decrease in fund balance		<u>(9,364,924)</u>
Fund balances at July 1, 2007		<u>6,280,509</u>
Fund balances at June 30, 2008	\$	<u><u>(3,084,415)</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Schedule of Balance Sheet Accounts

June 30, 2008

**Assets**

Cash in County Treasury	\$ 403,636,204
Cash in banks	2,358,911
Investment	3,261,382
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts	2,622,869
Due from other funds	23,907,216
Deposit with trustee	13,297,673
Total assets	<u>\$ 449,084,255</u>

**Liabilities and Fund Equity**

Liabilities:	
Accounts payable	\$ 92,211,340
Due to other funds	11,444,625
Total liabilities	<u>103,655,965</u>
Fund equity:	
Reserved for capital expenditures	<u>345,428,290</u>
Total fund equity	<u>345,428,290</u>
Total liabilities and fund equity	<u>\$ 449,084,255</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2008

Local revenues:	
Interest	\$ 24,108,112
Total local revenues	<u>24,108,112</u>
Expenditures:	
Other operating expenses and services	<u>18,268,811</u>
Capital outlay and equipment replacement:	
Land	13,056,803
Buildings	439,978,111
Equipment	<u>8,868,061</u>
Total capital outlay and equipment replacement	<u>461,902,975</u>
Total expenditures	<u>480,171,786</u>
Deficit of revenues over expenditures	(456,063,674)
Other financing sources:	
Proceeds from issuance of debt	<u>400,000,000</u>
Total other financing sources	<u>400,000,000</u>
Net decrease in fund balance	(56,063,674)
Fund balances at July 1, 2007	<u>401,491,964</u>
Fund balances at June 30, 2008	<u>\$ 345,428,290</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Schedule of Expenditures of Proposition A Bond Proceeds

Years ended June 30, 2008 and 2007 and  
period from April 10, 2001 (inception) through June 30, 2006

	Budget (Unaudited)	Actual expenditures				Cumulative total
		Period from April 10, 2001 (inception) through June 30, 2006	Year ended June 30, 2007	Year ended June 30, 2008	Reimbursements from state	
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 610,299,848	70,121,516	92,808,519	217,674,832	(43,535,319)	337,069,548
Construction (renovation)	223,355,278	57,012,854	30,985,358	25,807,532	(1,803,334)	112,002,410
Hardscape/landscape	22,855	125,771	—	—	—	125,771
Temporary facilities	11,628,157	7,962,390	3,370,553	1,996,122	—	13,329,065
Furniture, fixtures, and equipment	39,811,177	4,498,768	1,989,771	5,911,927	(805,000)	11,595,466
Total structural and equipment costs	885,117,315	139,721,299	129,154,201	251,390,413	(46,143,653)	474,122,260
Other costs:						
Land acquisition	40,102,460	60,099,324	3,584,068	(20,570,000)	—	43,113,392
Development and support costs:						
Master planning	9,746,610	8,345,205	4,978,042	1,005,552	—	14,328,799
Predesign/programming	7,444,136	7,819,750	91,770	238,738	—	8,150,258
Design	142,130,297	69,570,565	15,551,563	21,465,188	(2,930,188)	103,657,128
Specialty consulting	38,377,393	14,514,486	3,979,995	8,930,557	(50,636)	27,374,402
Project management	79,556,654	59,001,076	12,027,768	13,975,761	—	85,004,605
Inspection and testing	28,982,163	4,470,818	4,842,652	10,178,950	(53,680)	19,438,740
Construction management	487,052	507,406	—	—	—	507,406
Reimbursables	10,840,922	2,881,854	—	1,601,968	(34,803)	4,449,019
Total development and support costs	317,565,227	167,111,160	41,471,790	57,396,714	(3,069,307)	262,910,357
Total college direct costs	1,242,785,002	366,931,783	174,210,059	288,217,127	(49,212,960)	780,146,009
Programwide costs:						
Program management	53,402,030	45,998,068	11,195,431	7,862,522	—	65,056,021
Legal consulting fees	10,375,706	4,074,509	766,539	635,826	—	5,476,874
Compliance and audit fees	4,394,523	1,874,984	130,574	160,721	—	2,166,279
Bond measure election costs	454,331	523,742	—	—	—	523,742
Rents and leases	1,038,876	106,667	558,980	309,547	—	975,194
Total programwide costs	69,665,466	52,577,970	12,651,524	8,968,616	—	74,198,110
Total college direct costs, programwide costs, and debt refinancing	1,312,450,468	\$ 419,509,753	186,861,583	297,185,743	(49,212,960)	854,344,119
Unallocated budget	36,706,545					
Total	\$ 1,349,157,013					

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Reconciliation of Proposition A Bond Proceeds

June 30, 2008

	<u>Total</u>
Bonds authorized and issued	\$ 953,500,000
Bonds authorized but not yet issued	<u>291,500,000</u>
Total bonds authorized	1,245,000,000
Additional proceeds from General Obligation Refunding Bond, 2005 Series A	12,330,000
Additional proceeds from surplus equipment sales	108,523
Interest earned for the period April 10, 2001 (inception) through June 30, 2008	<u>91,718,511</u>
Total bonds authorized, interest earned, and other	1,349,157,034
Less expenditures of bond proceeds for the period from April 10, 2001 (inception) through June 30, 2008	<u>(854,344,119)</u>
Total authorized and issued bond funds available at June 30, 2008	<u><u>\$ 494,812,915</u></u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

**Building Fund**

**Schedule of Expenditures of Proposition AA Bond Proceeds**

Years ended June 30, 2008 and 2007 and  
period from May 20, 2003 (inception) through June 30, 2006

	Budget (Unaudited)	Actual expenditures				Cumulative total
		Period from May 20, 2003 (inception) through June 30, 2006	Year ended June 30, 2007	Year ended June 30, 2008	Reimbursements from state	
College direct costs:						
Structural and equipment costs:						
Construction (new)	\$ 398,268,498	23,617,751	22,389,251	87,775,111	(6,966,930)	126,815,183
Construction (renovation)	214,759,364	9,659,593	10,436,795	59,194,474	—	79,290,862
Temporary facilities	4,542,742	706,684	420,047	369,156	—	1,495,887
Furniture, fixtures, and equipment	38,471,044	1,054,489	1,956,764	3,346,025	—	6,357,278
Total structural and equipment costs	656,041,648	35,038,517	35,202,857	150,684,766	(6,966,930)	213,959,210
Other costs:						
Land acquisition	73,550,432	25,387,712	4,141,798	33,554,907	—	63,084,417
Building acquisition	—	19,704,402	—	—	—	19,704,402
Total other costs	73,550,432	45,092,114	4,141,798	33,554,907	—	82,788,819
Development and support costs:						
Master planning/EIR	2,603,384	1,108,135	573,594	458,794	—	2,140,523
Predesign/programming	1,751,211	515,086	232,223	406,395	—	1,153,704
Design	70,304,976	12,206,799	13,086,414	14,598,320	(1,617,497)	38,274,036
Specialty consulting	18,564,070	3,125,343	2,032,722	4,874,566	(71,160)	9,961,471
Project management	47,419,330	18,702,574	8,775,611	10,467,633	—	37,945,818
Inspection and testing	20,203,863	704,314	1,037,729	2,606,864	(1,835)	4,347,072
Construction management	—	1,607	—	—	—	1,607
Reimbursables	5,204,153	—	—	901,570	(12,203)	889,367
Total development and support costs	166,050,987	36,363,858	25,738,293	34,314,142	(1,702,695)	94,713,598
Total college direct costs	895,643,067	116,494,489	65,082,948	218,553,815	(8,669,625)	391,461,627
Programwide costs:						
Program management	32,480,528	14,506,160	7,880,905	5,583,291	—	27,970,356
Legal consulting fees	4,064,456	490,819	41,060	175,565	—	707,444
Compliance and audit fees	2,776,855	167,298	141,858	161,976	—	471,132
Bond measure election costs	443,880	1,124,162	—	—	—	1,124,162
Rents and leases	4,118,095	268,850	465,627	1,034,500	—	1,768,977
Total programwide costs	43,883,814	16,557,289	8,529,450	6,955,332	—	32,042,071
Debt refinancing	79,851,451	79,851,451	—	—	—	79,851,451
Total college direct costs, programwide costs, and debt refinancing	1,019,378,332	\$ 212,903,229	73,612,398	225,509,147	(8,669,625)	503,355,149
Unallocated budget	22,126,229					
Total	\$ 1,041,504,561					

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Reconciliation of Proposition AA Bond Proceeds

June 30, 2008

	<u>Total</u>
Bonds authorized and issued	615,085,000
Bonds authorized but not yet issued	<u>364,915,000</u>
Total bonds authorized	980,000,000
Additional proceeds from sale of property	29,974,680
Interest earned for the period May 20, 2003 (inception) through June 30, 2008	<u>31,529,880</u>
Total bonds authorized, interest earned, and other	1,041,504,560
Less expenditures of bond proceeds for the period from May 20, 2003 (inception) through June 30, 2008	<u>(503,355,149)</u>
Total authorized and issued bond funds available at June 30, 2008	<u><u>538,149,411</u></u>

See accompanying independent auditors' report.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Schedule of Balance Sheet Accounts

June 30, 2008

**Assets**

Cash in County Treasury	\$ 919,347
Cash in banks	513,658
Accounts, notes, interest, and loans receivable, net	4,313,248
Due from other funds	<u>1,187,606</u>
Total assets	<u>\$ 6,933,859</u>

**Liabilities and Fund Equity**

Liabilities:	
Accounts payable	\$ 1,753,046
Due to other funds	<u>532,328</u>
Total liabilities	<u>2,285,374</u>
Fund equity:	
Restricted	<u>4,648,485</u>
Total fund equity	<u>4,648,485</u>
Total liabilities and fund equity	<u>\$ 6,933,859</u>

See accompanying independent auditors' report.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Student Financial Aid Fund

### Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts

Year ended June 30, 2008

Revenues:		
Federal revenues:		
Seog	\$	1,984,842
Pell (Beog)		67,461,981
Direct loan		8,672,955
Other		281,869
Total federal revenues		<u>78,401,647</u>
State revenues:		
Extended Opportunity Program		6,534,656
Cal Grant		7,095,284
Total state revenues		<u>13,629,940</u>
Local revenues:		
Interest		270,171
Other		81,603
Total local revenues		<u>351,774</u>
Total revenues		<u>92,383,361</u>
Expenditures:		
Books and supplies		16,054
Other operating expenses and services		92,403,576
Total expenditures		<u>92,419,630</u>
Excess of revenues over expenditures		(36,269)
Other financing uses:		
Operating transfers in (out)		<u>—</u>
Net decrease in fund balance		(36,269)
Fund balances at July 1, 2007		<u>4,684,754</u>
Fund balances at June 30, 2008	\$	<u><u>4,648,485</u></u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**  
Expendable Trust Fund – Associated Student Organization Funds and Agency Funds  
Combined Schedule of Balance Sheet Accounts  
June 30, 2008

Assets	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Pierce College	Los Angeles Southwest College	Los Angeles Trade- Technical College	Los Angeles Valley College	West Los Angeles College	Total
Cash in banks	\$ 316,748	335,682	109,172	64,038	482,977	104,810	160,783	443,354	115,333	2,132,897
Investments	967,512	167,480	282,012	258,381	607,599	—	1,623,484	793,751	202,047	4,902,266
Inventory	—	14,430	—	838	462	10,422	—	—	4,020	30,172
Capital assets	20,849	—	—	—	194,775	9,712	162,986	256,122	48,650	693,094
Total assets	\$ 1,305,109	\$ 517,592	\$ 391,184	\$ 323,257	\$ 1,285,813	\$ 124,944	\$ 1,947,253	\$ 1,493,227	\$ 370,050	\$ 7,758,429
<b>Liabilities and Fund Equity</b>										
Liabilities:										
Accounts payable	\$ 7,353	15,229	—	—	5,162	—	—	—	10,234	37,978
Deferred revenue	6,821	—	—	—	—	—	—	—	385	7,206
Scholarship and trust	977,996	2,012	—	197,436	615,517	106,606	282,589	124,627	189,549	2,496,352
Other liabilities	—	—	—	—	39,235	—	640,934	315,853	—	996,022
Total liabilities	992,170	17,241	—	197,436	659,914	106,606	923,523	440,480	200,168	3,537,538
Fund equity:										
Investment in fixed assets	20,849	—	—	—	194,775	9,712	162,986	256,122	48,650	693,094
Fund balances – designated for future expenditures	292,090	500,351	391,184	125,821	431,124	8,626	860,744	796,625	121,232	3,527,797
Total fund equity	312,939	500,351	391,184	125,821	625,899	18,338	1,023,730	1,052,747	169,882	4,220,891
Total liabilities and fund equity	\$ 1,305,109	\$ 517,592	\$ 391,184	\$ 323,257	\$ 1,285,813	\$ 124,944	\$ 1,947,253	\$ 1,493,227	\$ 370,050	\$ 7,758,429

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**  
**Expendable Trust Fund – Associated Student Organization Funds and Agency Funds**  
**Combined Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts**  
**Year ended June 30, 2008**

	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Pierce College	Los Angeles Southwest College	Los Angeles Trade- Technical College	Los Angeles Valley College	West Los Angeles College	Total
<b>Revenues:</b>										
Interest	\$ 28,223	7,144	11,091	9,544	17,868	624	48,531	25,033	8,895	156,953
Other	88,557	133,096	87,184	18,475	140,060	9,455	49,255	65,605	48,053	639,740
<b>Total revenues</b>	<u>116,780</u>	<u>140,240</u>	<u>98,275</u>	<u>28,019</u>	<u>157,928</u>	<u>10,079</u>	<u>97,786</u>	<u>90,638</u>	<u>56,948</u>	<u>796,693</u>
<b>Expenditures:</b>										
Contract services and other operating expenditures	86,305	(26,215)	47,383	16,911	138,155	34,534	(66,882)	82,685	97,916	410,792
<b>Total expenditures</b>	<u>86,305</u>	<u>(26,215)</u>	<u>47,383</u>	<u>16,911</u>	<u>138,155</u>	<u>34,534</u>	<u>(66,882)</u>	<u>82,685</u>	<u>97,916</u>	<u>410,792</u>
<b>Net increase (decrease) in fund balance</b>	<u>30,475</u>	<u>166,455</u>	<u>50,892</u>	<u>11,108</u>	<u>19,773</u>	<u>(24,455)</u>	<u>164,668</u>	<u>7,953</u>	<u>(40,968)</u>	<u>385,901</u>
Fund balances at July 1, 2007	282,464	333,896	340,292	114,713	606,126	42,793	859,062	1,044,794	210,850	3,834,990
Fund balances at June 30, 2008	<u>\$ 312,939</u>	<u>500,351</u>	<u>391,184</u>	<u>125,821</u>	<u>625,899</u>	<u>18,338</u>	<u>1,023,730</u>	<u>1,052,747</u>	<u>169,882</u>	<u>4,220,891</u>

See accompanying independent auditors' report.

**OTHER SUPPLEMENTAL INFORMATION**

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## LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2008

The Los Angeles Community College District (the District) was established on July 1, 1969 and comprises an area of approximately 882 square miles located in Los Angeles County. There were no changes in the boundaries of the District during the year. The District currently operates nine colleges as follows:

- East Los Angeles College
- Los Angeles City College
- Los Angeles Harbor College
- Los Angeles Mission College
- Pierce College
- Los Angeles Southwest College
- Los Angeles Trade-Technical College
- Los Angeles Valley College
- West Los Angeles College.

The board of trustees for the fiscal year ended June 30, 2008 comprised the following members:

Board of Trustees		
Name	Office	Term expires
Sylvia Scott-Hayes	President	6/30/11
Kelly G. Candaele	Vice President	6/30/09
Mona Field	Member	6/30/11
Georgia L. Mercer	Member	6/30/11
Miguel Santiago	Member	6/30/09
Nancy Pearlman	Member	6/30/09
Angela J. Reddock	Member	6/30/09
Rose Bustos	Student Trustee	5/31/09

### Administration

Dr. Marshall E. Drummond, Chancellor  
Dr. Adriana D. Barrera, Deputy Chancellor  
Mr. Larry H. Eisenberg, Executive Director, Facilities Planning and Development  
Ms. Camille A. Goulet, General Counsel  
Ms. Jeanette L. Gordon, Chief Financial Officer/Treasurer

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2008

### College Presidents

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Mr. Ernest H. Moreno	East Los Angeles College
Dr. Jamillah Moore	Los Angeles City College
Dr. Linda M. Spink	Los Angeles Harbor College
Ms. Judith Valles	Los Angeles Mission College
Mr. Robert Garber	Pierce College
Dr. Jack E. Daniels III	Los Angeles Southwest College
Dr. Roland Chapdelaine	Los Angeles Trade-Technical College
Dr. Tyree Wieder	Los Angeles Valley College
Dr. Mark Rocha	West Los Angeles College



**LOS ANGELES COMMUNITY COLLEGE DISTRICT**  
Schedule of Workload Measures for State General Apportionment  
Annual (Actual) Attendance as of June 30, 2008

<u>Categories</u>	<u>State residents reported data</u>	<u>Audit adjustments</u>	<u>Revised data</u>
A. Summer intersession (Summer Segment 2 only):			
1. Noncredit	1,450.32		1,450.32
2. Credit	6,114.84		6,114.84
B. Summer intersession (Summer Segment 1 only):			
1. Noncredit	133.86		133.86
2. Credit	7,015.63		7,015.63
C. Primary terms (exclusive of summer intersessions):			
1. Census procedure courses:			
a. Weekly census contact hours	67,892.62		67,892.62
b. Daily census contact hours	10,171.93		10,171.93
2. Actual hours of attendance procedure courses:			
a. Noncredit	4,859.34		4,859.34
b. Credit	5,235.08		5,235.08
3. Independent study/work experience education courses:			
a. Weekly census procedure courses	263.69		263.69
b. Daily census procedure courses	1,485.29		1,485.29
c. Noncredit independent study	—		—
D. Total Full-Time Equivalent Students (FTES)	<u>104,622.60</u>	<u>—</u>	<u>104,622.60</u>
<b>Supplemental Information</b>			
E. In-service training courses	3,182.99		
F. For future use	—		
G. For future use	—		
H. Basic skills courses:			
1. Noncredit	4,708.17		
2. Credit	7,225.21		
I. CCFS-320 Addendum:			
CDCP Noncredit FTES	2,333.76		
J. Centers FTES:			
1. Noncredit	NA		
2. Credit	NA		

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**  
Reconciliation of Annual Financial and Budget Report (CCFS 311) with District Accounting System  
Fiscal year ended June 30, 2008

	General Fund	Special Revenue Fund	Debt Service Fund	Retirees' Health Insurance Fund	Building Fund
Total fund balances per annual financial budget report as of June 30, 2008	\$ 74,553,096	81,088,046	1,985,625	(2,705,536)	348,502,295
Audit adjustments to fund balance:					
Adjustment to salary and employee benefits expense	—	—	—	(378,879)	—
Adjustment to accrued liabilities for building fund	—	—	—	—	(3,074,005)
Adjustments to bookstore's reserve for inventory and facility improvements	—	6,599,927	—	—	—
Adjustments to workers' compensation payable reserve	1,900,000	—	—	—	—
Adjustments and reclass	1,900,000	6,599,927	—	(378,879)	(3,074,005)
Unaudited ending fund balance as of June 30, 2008	76,453,096	87,687,973	1,985,625	(3,084,415)	345,428,290
Current assets:					
Adjustment to receivables	2,253,023	—	—	—	—
Capital assets are not financial resources and therefore are not reported as assets in government funds	—	—	—	—	—
Other assets are not financial resources and therefore are not reported as assets in government funds	—	—	—	—	—
Long-term liabilities are not booked as part of fund balances:					
G.O. Bonds	—	—	—	—	—
Unamortized premium bonds	—	—	—	—	—
Prepaid interest expense	—	—	—	—	—
Revenue bond	—	—	—	—	—
Workers' compensation claims payable	—	—	—	—	—
General liability	—	—	—	—	—
Vacation benefits payable	—	—	—	—	—
Capital lease payable	—	—	—	—	—
Audited net assets as of June 30, 2008	\$ 78,706,119	87,687,973	1,985,625	(3,084,415)	345,428,290

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS 311) with District Accounting System

Fiscal year ended June 30, 2008

	Student Financial Aid Fund	ASO Fund	General long-term fixed assets	Other GASB adjustments to general long-term debt	Total
Total fund balances per annual financial budget report as of June 30, 2008	\$ 4,648,485	4,220,891	—	—	512,292,902
Audit adjustments to fund balance:					
Adjustment to salary and employee benefits expense	—	—	—	—	(378,879)
Adjustment to accrued liabilities for building fund	—	—	—	—	(3,074,005)
Adjustments to bookstore's reserve for inventory and facility improvements	—	—	—	—	6,599,927
Adjustments to workers' compensation payable reserve	—	—	—	—	1,900,000
Adjustments and reclass	—	—	—	—	5,047,043
Unaudited ending fund balance as of June 30, 2008	4,648,485	4,220,891	—	—	517,339,945
Current assets:					
Adjustment to receivables	(2,344,139)	—	—	—	(91,116)
Capital assets are not financial resources and therefore are not reported as assets in government funds	—	(693,094)	1,480,066,480	—	1,479,373,386
Other assets are not financial resources and therefore not reported as assets in government funds	—	—	—	9,148,302	9,148,302
Long-term liabilities are not booked as part of fund balances:					
G.O. Bonds	—	—	—	(1,370,820,000)	(1,370,820,000)
Unamortized premium bonds	—	—	—	(67,549,281)	(67,549,281)
Prepaid interest expense	—	—	—	15,266,698	15,266,698
Revenue bond	—	—	—	(1,219,958)	(1,219,958)
Workers' compensation claims payable	—	—	—	(38,539,000)	(38,539,000)
General liability	—	—	—	(6,524,000)	(6,524,000)
Vacation benefits payable	—	—	—	(14,814,453)	(14,814,453)
Capital lease payable	—	—	—	(4,002,036)	(4,002,036)
Audited net assets as of June 30, 2008	\$ 2,304,346	3,527,797	1,480,066,480	(1,479,053,728)	517,568,487

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Schedule of Expenditures of Federal Awards

June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA or project number	Award or pass-through identification number	Expenditures
Department of Agriculture:			
Direct programs:			
Water Improvement by the Next Generation (WINGS)	10.223	2005-38422-15933	\$ 102,138
Summer Food Service	10.559		36,943
Passed through California Department of Education:			
Child Care Food Programs	10.558	19-2432-2A	336,706
Passed through California Department of Health Services			
California Nutrition Network	10.561	05-45507	826,175
California Nutrition Network	10.561	07-65327	700,126
			<u>1,526,301</u>
Total Department of Agriculture			<u>2,002,088</u>
Department of Housing and Urban Development:			
Direct programs:			
Hispanic Serving Institution	14.514		329,589
Community Outreach Partnership Centers	14.511	COPC-CA-04-703	50,470
Passed through City of Los Angeles:			
Family Development Network	14.218	108278	<u>704,644</u>
Total Department of Housing and Urban Development			<u>1,084,703</u>
Department of Labor:			
Passed through City of Los Angeles – City Job Basic Skills training	17.258	C-109928	4,867
Passed through City of Los Angeles – Workforce Investment Act – Utilities Sector Initiative	17.258	07-1714	6,202
Passed through County of Los Angeles – Workforce Investment Act – Com Career Title I – Adult	17.258	20164	<u>121,879</u>
			<u>132,948</u>
Passed through City of Los Angeles – Workforce Investment Act – Hospitality Sector	17.260	07-1714	6,321
Passed through City of Los Angeles – City Basic Skills Training	17.260	C-109928	3,168
Passed through County of Los Angeles – Com Career Title I – Dislocated	17.260	20220	<u>229,328</u>
			<u>238,817</u>
Passed through Economic Development Department – Advanced Manufacturing Training Institute	17.268	HG-15849-07-60	<u>621,338</u>
Total Department of Labor			<u>993,103</u>
National Aeronautics and Space Administration (NASA):			
Direct program:			
NASA – An Innovative Partnership	43.001		<u>14,477</u>
Total National Aeronautics and Space Administration			<u>14,477</u>
U.S. Environmental Protection Agency:			
Direct program:			
Small Grant – A Method to Convert Green and Animal Waste	81.049		<u>6,671</u>
Total U.S. Environmental Protection Agency			<u>6,671</u>

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Schedule of Expenditures of Federal Awards

June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA or project number	Award or pass-through identification number	Expenditures
Student Financial Assistance Cluster:			
Department of Education:			
Direct programs:			
Federal Supplemental Educational Opportunity Grant Program	84.007		\$ 2,092,110
Federal Family Education Loan Program	84.032		5,340,669
Federal Work-Study Program	84.033		1,919,649
Federal Perkins Loan Program	84.038		368,778
Federal Pell Grant Program	84.063		64,616,755
William Ford Direct Loan Program	84.268		3,331,034
Academic Competitiveness Grant	84.375		422,825
Total Department of Education			<u>78,091,820</u>
Department of Health and Human Services:			
Direct program:			
Nursing Student Loan Program	93.364		<u>34,808</u>
Total Department of Health and Human Services			<u>34,808</u>
Total Student Financial Assistance Cluster			<u>78,126,628</u>
Department of Education:			
TRIO Cluster:			
Direct programs:			
TRIO – Student Support Services	84.042		1,613,399
TRIO – Talent Search Program	84.044		582,606
TRIO – Upward Bound Program	84.047		1,368,563
TRIO – Educational Opportunity Centers	84.066		251,401
Total TRIO Cluster			<u>3,815,969</u>
Direct programs:			
Higher Education Institutional Aid	84.031		4,409,979
Fund for the Improvement of Post Secondary Education – Fast Track Nursing Career	84.116		2,732
Minority Science and Engineering Improvement	84.120		154,697
Passed through California Community College's Chancellors Office - Adult Education and Family Literacy and English Literacy	84.002	19-64741	603,252
Passed through California Community College's Chancellors Office - Vocational and Applied Technology Education Act, Title IC	84.048	06-C01-027	274,525
Passed through California Community College's Chancellors Office - Vocational and Applied Technology Education Act, Title IC	84.048	07-C01-027	4,048,652
			<u>4,323,177</u>
Passed through California Community College's Chancellor's Office:			
Tech Prep Education – Los Angeles City College	84.243	07-139-083	75,692
Tech Prep Education – East Los Angeles College	84.243	07-139-032	71,518
Tech Prep Education – Los Angeles Harbor College	84.243	07-139-034	84,303
Tech Prep Education – Los Angeles Mission College	84.243	07-139-035	74,920
Tech Prep Education – Los Angeles Pierce College	84.243	07-139-036	75,499
Tech Prep Education – Los Angeles Southwest College	84.243	07-139-039	76,767
Tech Prep Education – Los Angeles Trade-Technical College	84.243	07-139-082	73,027
Tech Prep Education – Los Angeles Valley College	84.243	07-139-038	75,761
Tech Prep Education – West Los Angeles College	84.243	07-139-037	76,647
Tech Prep Education – Distribution Points Project	84.243	CN077057	174,283
			<u>858,417</u>
Passed through California Department of Education:			
California 21st Century Community Learning Centers	84.287	06-14349-V918-2A	173,084
California 21st Century Community Learning Centers	84.287	07-14349-6474-2A	105,445
			<u>278,529</u>
Passed through Los Angeles Unified School District – GEAR UP	84.334	800479	<u>45,674</u>
Total Department of Education			<u>14,492,426</u>

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Schedule of Expenditures of Federal Awards

June 30, 2008

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA or project number</b>	<b>Award or pass-through identification number</b>	<b>Expenditures</b>
Department of Health and Human Services:			
Direct programs:			
Other Health Professions	93.888	1D1DHP05554-01-00	\$ 99,289
Other Health Professions	93.888	1D1DHP06404-01-00	1,935
			<u>101,224</u>
Passed through State of California Department of Public Health – Temporary Assistance for Needy Families (TANF)	93.558	4362501711014	994,458
Passed through California Department of Education:			
Instructional Materials	93.575	CIMS-7194	3,459
Infant Toddler Resource	93.575	CCAP-7160	4,477
CCDF School Age Block Grant	93.575	CSCC-7112	2,308
			<u>10,244</u>
Passed through California Department of Education – Child Development Block Grant	93.596	CCTR-7161	155,034
Total Department of Health and Human Services			<u>1,260,960</u>
Corporation for National and Community Service:			
AmeriCorps	94.006		273,085
Total Corporation for National and Community Service			<u>273,085</u>
Department of Homeland Security:			
Passed through California Governor's Office of Emergency Services - Hazard Mitigation Grants	97.039	FEMA-DR-1008-1016-CA	363
Total Department of Homeland Security			<u>363</u>
Total expenditures of federal awards			<u>\$ 98,254,504</u>

See accompanying independent auditors' report.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Schedule of State Financial Awards

June 30, 2008

Program name	Cash received	Accounts receivable	Deferred income	Total program revenues	Total program expenditures
Disabled Students Program and Services	\$ 6,417,213	—	—	6,417,213	7,707,856
State Matriculation (Credit)	7,293,940	—	—	7,293,940	7,528,220
State Matriculation (Non Credit)	983,160	—	—	983,160	986,012
Student Financial Aid Administration	4,954,508	—	—	4,954,508	4,808,814
One-Time Block Grant/Instructional Equipment/					
Deferred Maintenance	1,729,314	—	—	1,729,314	3,542,078
Basic Skills	3,227,912	—	—	3,227,912	2,066,179
Extended Opportunity Program and Services (EOPS)	13,302,122	—	—	13,302,122	13,518,773
Cooperative Agencies Resource for Education (CARE)	1,397,093	—	—	1,397,093	1,443,528
CalWORKS Program	5,526,674	—	—	5,526,674	5,606,681
Telecommunication and Technology					
Infrastructure Program	415,467	—	—	415,467	512,651
Foster Care Program	436,529	830,516	—	1,267,045	1,290,117
Staff Development	—	—	—	—	179,223
Faculty and Staff Diversity	77,574	—	—	77,574	84,913
Career Tech Trailer Bill	—	—	—	—	753,645
CAHSEE Preparation Program	2,004,872	340,121	794,868	1,550,125	1,549,994
Nursing Program	2,635,481	146,559	1,566,859	1,215,181	1,308,144
Temporary Assistance for Needy Families CDC	199,302	112,810	—	312,112	340,233
Independent Living Program	12,578	55,222	—	67,800	140,777
Economic Development	3,682,079	483,662	1,257,615	2,908,126	3,182,796
Math, Engineering and Science Achievement (MESA)	72,440	—	348	72,092	73,135
Middle College High School (MCHS)	—	122,129	—	122,129	122,129
Transfer and Articulation Program	45,000	—	5,554	39,446	39,446
Other state assistance programs	1,426,559	1,163,296	—	2,589,855	2,664,167
Child Development Pre-School Care	2,344,321	424,656	1,473	2,767,504	2,767,504
Child Development Services	1,185,666	733,558	57,659	1,861,565	1,861,565
Family Child Care Homes Network	740,247	5,730	—	745,977	752,527
CAL Grants	7,095,284	—	3,968	7,091,316	7,091,316
Total state programs	\$ 67,205,335	4,418,259	3,688,344	67,935,250	71,922,423

See accompanying independent auditors' report.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Notes to Schedules of Expenditures of Federal and State Financial Awards

Year ended June 30, 2008

**(1) General**

The accompanying schedule of expenditures of federal awards and schedule of state financial awards present the activity of all federal and state financial assistance programs of the Los Angeles Community College District (the District). The District reporting entity is defined in the basic financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule.

**(2) Basis of Accounting**

The accompanying schedule of expenditures of federal awards and schedule of state financial awards are presented using the accrual basis of accounting.

**(3) Reconciliations to Basic Financial Statements**

Amounts reported in the accompanying schedule of state financial awards agree with the amounts reported in the related basic financial statements, in all material respects.

State revenues in the fund financial statements

General Fund	\$ 418,173,228
Special Revenue Fund	47,568,000
Student Financial Aid Fund	13,629,940

Total state revenues in fund financial statements	<u>\$ 479,371,168</u>
---	-----------------------

Total state revenues in accompanying schedule	<u>\$ 67,935,250</u>
---	----------------------

Add:

General Fund:

Basic and equalization aid	353,886,878
State lottery	15,980,901
Tax relief subvention	1,247,408
Other state funds	339,197

Total other General Fund revenues	<u>371,454,384</u>
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Special Revenue Fund:

Community College Construction Act	39,981,534
Scheduled Maintenance Program	—

Total other Special Revenue Fund revenues	<u>39,981,534</u>
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Total state revenues in fund financial statements	<u>\$ 479,371,168</u>
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# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Schedules of Expenditures of Federal and State Financial Awards

Year ended June 30, 2008

### (4) Loans Outstanding

The District made the following advances and had the following loans outstanding, which were held by the District as of June 30, 2008. Loan balances outstanding are included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Cluster name/program title</u>	<u>CFDA number</u>	<u>Loan advances made</u>	<u>Loan balances outstanding</u>
Student financial aid cluster:			
Federal Family Education Loans (FFEL)	84.032	\$ 5,340,669	—
Federal Perkins Loans (FPL)	84.038	368,778	3,722,513
Federal Direct Student Loans	84.268	3,331,034	—
Nursing Student Loans	93.364	34,808	133,941

### (5) Administrative Cost Allowances

Administrative cost allowances included in the accompanying schedule of expenditures of federal awards are summarized as follows:

Federal Supplemental Educational Opportunity Grant	\$ 107,268
Federal Work-Study Program	<u>96,530</u>
	<u>\$ 203,798</u>

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Notes to Schedules of Expenditures of Federal and State Financial Awards

Year ended June 30, 2008

### (6) Federal Clusters of Programs

The following summarizes the expenditures of federal program clusters included in the schedule of expenditure of federal awards:

	<u>CFDA</u>	<u>Expenditures</u>
Workforce Investment Act (WIA) Cluster:		
WIA Adult Program	17.258	\$ —
WIA Youth Activities	17.259	132,948
WIA Dislocated Workers	17.260	238,817
		<u>\$ 371,765</u>
TRIO Cluster:		
Student Support Services	84.042	\$ 1,613,399
Talent Search	84.044	582,606
Upward Bound	84.047	1,368,563
Educational Opportunity Centers	84.066	251,401
		<u>\$ 3,815,969</u>
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	\$ 2,092,110
Federal Family Education Loans (FFEL)	84.032	5,340,669
Federal Work-Study (FWS)	84.033	1,919,649
Federal Perkins Loan (FPL)	84.038	368,778
Federal Pell Grant Program (PELL)	84.063	64,616,755
Federal Direct Student Loans (Direct Loan)	84.268	3,331,034
Academic Competitiveness Grant (ACG)	84.375	422,825
Nursing Student Loans	93.364	34,808
		<u>\$ 78,126,628</u>
Child Care Development Fund Cluster:		
Child Care and Development Block Grant	93.575	\$ 10,244
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	155,034
		<u>\$ 165,278</u>

**INDEPENDENT ACCOUNTANTS' REPORT ON  
STATE COMPLIANCE REQUIREMENTS**

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KPMG LLP  
Suite 700  
600 Anton Boulevard  
Costa Mesa, CA 92626-7651

## Independent Accountants' Report on State Compliance Requirements

The Honorable Board of Trustees  
Los Angeles Community College District  
Los Angeles, California:

We have examined the District's compliance with the following state laws and regulations for the year ended June 30, 2008 in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

- Salaries of Classroom Instructors: 50% Law (421)
- Apportionment for Instructional Service Agreements/Contracts (423)
- State General Apportionment (424)
- Residency Determination for Credit Courses (425)
- Students Actively Enrolled (426)
- Concurrent Enrollment of K-12 Students in Community College Credit Courses (427)
- Uses of Matriculation Funds (428)
- Gann Limit Calculation (431)
- Enrollment Fee (432)
- California Work Opportunity and Responsibility to Kids (CalWORKS) – Use of State and Federal Temporary Assistance for Needy Families (TANF) Funding (433)
- Scheduled Maintenance Program (434)
- Open Enrollment (435)
- Student Fee – Instructional Materials and Health Fees (437).

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, except for findings S-08-01 through S-08-12 described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2008.

This report is intended solely for the information and use of the District's management, the board of trustees, audit committee, and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 23, 2009

**ADDITIONAL REPORTS OF INDEPENDENT AUDITORS**

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Suite 700  
600 Anton Boulevard  
Costa Mesa, CA 92626-7651

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Board of Trustees  
Los Angeles Community College District  
Los Angeles, California:

We have audited the basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon, dated February 23, 2009, with included reference to the District's adoption of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS-08-01 to FS-08-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial control that might

be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item FS-08-02 to be a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's update to the findings identified in our previous year's audits are described in the accompanying schedule of prior year federal and state findings and prior year's comments. We did not audit the District's response and update, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 23, 2009



KPMG LLP  
Suite 700  
600 Anton Boulevard  
Costa Mesa, CA 92626-7651

**Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control  
over Compliance in Accordance with OMB Circular A-133**

The Honorable Board of Trustees  
Los Angeles Community College District  
Los Angeles, California:

**Compliance**

We have audited the compliance of the Los Angeles Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (the Compliance Supplement) that are applicable to each of its major federal programs for the year ended June 30, 2008, except the requirements discussed in the second paragraph of this report. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We did not audit the District's compliance with the requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by Affiliated Computer Services, Inc. (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS's compliance with the requirements governing the functions that it performs for the District for the year ended June 30, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ACS's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in finding F-08-10 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs that are applicable to the TRIO cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

As described in findings F-08-05 and F-08-08 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs and procurement that are applicable to its higher education institutional aid program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

As described in findings F-08-14, F-08-15, and F-08-16 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs, equipment management, and procurement that are applicable to its vocational education – basic grants to states and allowable costs that are applicable to its career and technical education program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding three paragraphs, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Additionally, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings F-08-01 through F-08-04, F-08-06, F-08-07, F-08-09, and F-08-11 through F-08-13.

#### **Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ACS. Internal control over compliance related to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ACS's internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items F-08-01 through F-08-16 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control over compliance. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings F-08-05, F-08-08, F-08-10, F-08-14, F-08-15 and F-08-16 to be material weaknesses.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management, and the federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 23, 2009



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified**

(b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **Yes**

Material weaknesses: **Yes**

(c) Noncompliance which is material to the basic financial statements: **No**

(d) Significant deficiencies in internal control over major programs: **Yes**

Material weaknesses: **Yes**

(e) The type of report issued on compliance for major programs:

Student Financial Aid Cluster – **Unqualified**

TRIO Cluster – **Qualified**

Vocational Education Basic Grants to States – **Qualified**

Higher Education Institutional Aid – **Qualified**

(f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133:  
**Yes**

(g) Major programs:

U.S. Department of Education

• Student Financial Assistance Cluster:

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work-Study Program (FWS)
CFDA 84.038	Federal Perkins Loans (FPL)
CFDA 84.063	Federal Pell Grant Program (PELL)
CFDA 84.268	Federal Direct Student Loans (DIRECT LOAN)
CFDA 84.375	Academic Competative Grant (ACG)
CFDA 93.364	Nursing Student Loans (NSL)

• Higher Education Institutional Aid – CFDA 84.031

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- TRIO Cluster
  - CFDA 84.042 Student Support Services
  - CFDA 84.044 Talent Search
  - CFDA 84.047 Upward Bound
  - CFDA 84.066 Educational Opportunity Centers
- Vocational Education Basic Grants to States – CFDA 84.048

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

(i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No**

#### (2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

##### **FS-08-01: Payroll**

###### *Condition and Context*

Effective July 1, 2005, the District implemented the SAP-HR module. During this implementation, the District did not perform any parallel testing between the new SAP-HR module and the existing legacy system. Consistent with our results in prior year, we noted numerous exceptions in our internal controls and substantive procedures over payroll expenditures and related accounts. The District's current internal control procedures appear to be more detective controls rather than preventative. We noted both system and manual errors that were not detected or resolved in a timely manner.

Of the 330 sampled payroll payments made to employees for an individual pay cycle, we noted that 17 of the payroll payments were incorrectly calculated or unsupported. The 17 exceptions extrapolated to an estimated overstatement of \$3.1 million in salary expense.

The following is a summary of the types of exceptions over payroll-related accounts noted:

- Full-time instructors were paid at full utilization where the number of units taught was less than the standard number of units specified for the discipline. No adjustment in class load appeared to be made in the subsequent semesters.
- An instructor on a sabbatical leave received more than a half of his salary, where the District sabbatical leave guide specifies the instructors should receive a half of their regular pay on a sabbatical leave.
- The number of hours reported in SAP did not agree with the hours reported on timesheets.
- Incorrect pay rates, shift differentials, and allocation percentages were used in the calculation of salaries
- Lack of documentation to support the employee's pay rates, hours worked, level, job assignments, utilization, and differentials.



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- The District's SAP-HR module does not have uniform procedures in place to hire, terminate, or change employment status. There were also no uniform procedures in place to process payrolls. Additionally, there do not appear to be effective controls in place to ensure the integrity of the information entered into the system.

#### *Cause and Effect*

The issues noted above resulted in errors in payroll and benefit expenses. Additionally, a lack of formal systems development or acquisition policies and procedures compromises system integrity. If there is little or no control over system changes, the benefits originally gained by controlling the system's implementation are lost as subsequent changes to the system are made.

#### *Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles (U.S. GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

#### *Recommendation*

We recommend that management establish formal procedures and internal controls to ensure that payrolls are processed accurately. Further, we recommend that management retain manual supporting documentation for payroll payments until the SAP-HR module controls are operating effectively.

#### *Views of Responsible Officials and Planned Corrective Action*

District management concurs with the audit findings that the lack of parallel payrolls, new business processes, and controls during the implementation of the SAP-HR module are the principal contributing factors resulting in both the large number of system errors as well as human errors detailed in the report.

To address these critical concerns, new payroll and HR reports have been developed that assist the staff and management in reconciling payments, determining employees on unpaid leave, and reviewing the payroll edits for potential incorrect pays. The development of these reports is an ongoing process. Mini-project teams have been formed to address specific systems errors that cause error-pay. Specifically, the collection and remittance of both union dues and retirement deductions will be automated and standardized to capture the required deductions timely and correctly. The District has recently hired a new training coordinator to develop and conduct training modules in HR and payroll for the campus and district staff.

The District will further devote resources to developing, documenting, and implementing new business processes and internal controls to ensure the integrity of data entered into the SAP system either directly or through the PCR and protocol systems. The recently hired Director of Internal Audit will play a major role in identifying the areas of the weakest controls and assist the HR and payroll departments in this effort.

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#### **FS-08-02: Capital Assets**

##### *Condition and Context*

The District has contracted with a program management firm to manage the District's General Obligation Bond Construction Projects (Proposition A and AA) known as BuildLACCD (the Program Manager). The following issues were noted during our testwork:

- The District does not currently reconcile furniture and equipment purchased with bond proceeds to the actual equipment received and tagged.
- The District does not record the disposal of assets in the District's Asset Management system.
- The District was tracking certain projects that have costs associated with multiple projects as a single project. Therefore, there were costs incurred that were not appropriately allocated to the respective capital asset being constructed.
- The District does not currently have policies or procedures in place that allow them to identify a comprehensive list of completed capital asset projects by year completed in accordance with U.S. GAAP. A \$47.6 million adjustment was subsequently identified, which represented projects that were completed and ready for its intended use during the current year but were not appropriately transferred to a depreciable capital asset category. An adjustment was subsequently made to the District's financial statements to properly classify the capital assets by depreciable capital asset category.

##### *Cause and Effect*

The financial statement adjustments related to capital assets were primarily due to the completed projects that have not been classified as such, but instead remained in construction in progress. The majority of construction in progress is related to Proposition A and AA bond funded measures for capital improvement programs in each of the District's nine colleges. Effective July 2007, the District's board of trustees approved the Project Manager to oversee all bond-funded capital improvements. The Program Manager is responsible for maintenance of the master schedule of work performed, program budgets, accounting, contracting, and development. The Program Manager does not appear to be conducting a thorough review of when projects are completed in a timely manner. Lack of formal procedures in place to address the proper classification of construction in progress can also impact the related depreciation expense and capitalized interest of the completed project.

In addition, the District has also contracted with an asset management firm to record and track furniture and equipment purchases funded through bond proceeds as well as furniture and equipment disposals. The firm is responsible for receiving and tagging furniture and equipment purchases. Although the District has properly capitalized the furniture and equipment purchases made during the year, since the assets were not reconciled with BuildLACCD records, the District did not record this furniture and equipment into its Asset Management system. Lack of updating the inventory records into the District's Asset Management system will have an impact on possible loss and misuse of assets.

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#### *Criteria*

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the control deficiencies described above in aggregate represent a material weakness in internal controls.

#### *Recommendation*

We recommend that the District work with the Program Manager to design and implement internal controls to ensure that completed projects are appropriately classified in a depreciable capital asset category and all furniture and equipment are properly recorded and reconciled. We also recommend that management also implement processes and controls to determine that capital asset transactions are recorded and disclosed in accordance with U.S. GAAP.

#### *Views of Responsible Officials and Planned Corrective Action*

The District will work with BuildLACCD to address the issues noted above by implementing the following:

- The District will work with BuildLACCD to develop a written comprehensive policy covering the tracking and reporting of capital assets. This policy will include examples of what projects are considered completed projects as well as definition of a "completed project" as well as how "soft costs" are to be allocated to projects.
- At the end of the fiscal year, the District will ensure that the various campus Construction Project Management teams send a signed letter to the Program Management team, listing all completed projects (defined as beneficial occupancy) at their campus, and the date of their completion. This list will then be reviewed by the Program Management team and reported as part of the year-end financial close. On a quarterly basis, the Program Management team will work with the campus Construction Project Management teams to determine what has been completed that quarter, in order to update the internal controls reporting systems. On a monthly basis, the District will ensure that the electronic schedules used to manage projects by the Construction Project Management teams are sent in to the Program Management team as part of the monthly reporting cycle, and this information is then loaded into the project controls database.
- The District will work with BuildLACCD to ensure furniture and equipment purchases with the physical receipt of the items purchased and tagged.

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#### **FS-08-03: Financial Reporting**

##### *Condition and Context*

There were exceptions noted when testing the "Apportionment Attendance Report" (CCFS-320 Report), which was used to report full-time equivalent students (FTES) to the State Chancellor's office. The FTES calculations per the District DEC-SIS reports did not agree to supporting documentation. Discrepancies were primarily noted in student head counts.

The District does not perform any formal analysis of the collectibility of their receivables and, therefore, does not establish an appropriate reserve on old or uncollectible balances.

The District's accounts payable account for government grants and contracts contains various aged liabilities that originated several years ago. Additionally, the District has not performed an analysis to identify if these payables remain valid liabilities.

There were adjustments required to the District's schedule of expenditures of federal awards, which primarily related to removing the institutional matching portion of approximately \$249,000 for the Federal Work Study program, as well as correction of the expenditure for the Perkins Loan Program by approximately \$2.6 million.

The Accounting and Disbursements Division within the District currently reports to the Deputy Chancellor as opposed to the Chief Financial Officer/Treasurer.

##### *Cause and Effect*

The exceptions noted on the "Apportionment Attendance Report" (CCFS-320 Report), appear to be due to lack of processes or controls in place to ensure that accurate information was scanned into the student information system. Data used to prepare the CCFS-320 is collected by each class instructor through exclusion reports, positive attendance hours/grade collection forms, etc. The data collected was then submitted by the nine college campuses to the District. There was no control processes in place at the college or District level to ensure that the census procedures were performed accurately and on a timely fashion.

The aged receivables and payables appear to be due to the lack of processes or controls in place to determine the collectibility and validity of the balances in the financial statements in accordance with U.S. GAAP.

The adjustments to the schedule of expenditures of federal awards appear to be due to the lack of processes or controls in place to determine that grant activities are properly recorded and disclosed in accordance with OMB Circular A-133.

##### *Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented

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or detected. We believe the control deficiencies described above in aggregate represent significant deficiencies in internal controls.

#### *Recommendation*

We recommend management implement processes and controls to determine that transactions are recorded and disclosed in accordance with U.S. GAAP. The District should also strengthen its process and procedures to ensure that the financial statements and the schedule of expenditures of federal awards are reviewed and approved for proper classification and that all grant activities are included. Finally, we recommend the District consider reorganizing to have the Accounting and Disbursements Division report directly to the Chief Financial Officer/Treasurer.

#### *Views of Responsible Officials and Planned Corrective Action*

The District will review its internal processes and controls and make appropriate changes to ensure compliance with regard to the analysis of accounts receivable, and accounts payable, and the schedule of expenditures of federal awards. In 2005, the District undertook a review of the District Office organization, the position of Chief Financial Officer/Treasurer was created as a result to ensure the financial integrity and performance of the Colleges and the District. The District also created the office of Internal Audit reporting to the Chief Financial Officer/Treasurer to recommend internal control policies, guidelines, and procedures for business, financial, and general operational activities of the District. The Chief Financial Officer/Treasurer exercises functional supervision over the Accounting Departments of the Operations Division. The delineation of duties of the Deputy Chancellor and the Chief Financial Officer/Treasurer positions serves as a check and balance mechanism for the District. The District will strengthen procedures to help ensure that FTES per the SIS report is accurate and complete.

#### **FS-08-04: Information Technology**

##### *Condition and Context*

During our review of the District's IT general controls during the fiscal 2007 audit, we noted various control weaknesses. During the fiscal 2008 audit, we were not provided sufficient supporting documentation to evidence that the control weaknesses have been resolved. The following are examples of the IT general control issues previously identified:

- Terminated users were not removed in a timely manner.
- Access to certain user accounts was being shared.
- Certain user accounts had access that was not appropriately limited.
- Change management procedures were not formalized and consistently applied.

##### *Cause and Effect*

During 2006-07, LACCD was completing postimplementation activities for a complex and difficult implementation of an Enterprise Resource Planning System (SAP). Due to the lack of adequate staffing and the need to support operations as new functionality was being utilized, management indicated that certain access controls were not fully implemented and certain duties needed to be shared. While not ideal from a control standpoint, this also is not unusual for organizations that must continue to support business

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

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operations as complex systems implementations are being completed. However, weaknesses in the IT controls can significantly compromise both the security and accuracy of the data within a system. Additionally, a lack of adequate security over user access within systems can potentially expose the District to a variety of risks resulting from unauthorized access or change of financial data.

With regard to change management, once a system is operational, further changes to the system are usually required to meet the business' developing needs. Such changes should be subjected to controls as stringent as those used in the development or implementation of a new system. If there are weaknesses in managing system changes, the benefits originally gained by controlling the system's implementation can be quickly lost as subsequent changes are made.

#### *Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

#### *Recommendation*

We recommend that management design and implement adequate access control and change management procedures to help ensure that the District's business systems are adequately controlled and secured. These procedures should also include periodic reviews of both roles within the organization and of user access for the SAP system in order to remove user access that generates segregation-of-duties conflicts within application processes.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District concurs with the findings and will put in place the following access control and procedural changes:

1. Beginning July 2008, workflow approval processes for removal of terminated employee access were implemented.
2. We have put in place some processes to mitigate the issue of certain user accounts being shared. The District will continue to examine and put in place additional processes to improve access control.
3. The District has performed role review for key areas and automated alerts and notifications have been implemented to provide proper limited access, which partially addresses the issue. The District will continue to perform role reviews in an effort to properly limit access to certain accounts.
4. The District, in the first quarter of 2008, implemented a formal change management process using the HP Mercury Quality Control Tool. This will allow us to document and apply consistent changes.



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

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### (3) Summary of Current Year Findings and Questioned Costs Relating to Federal Awards

	<u>Finding numbers</u>
1 Student Financial Assistance – Special Tests and Provisions – Disbursements To or On Behalf of Students – Late Disbursement of FFEL Funds to Student or Parent	F-08-01
2 Student Financial Assistance – Special Tests and Provisions – Student Status Changes – Late Reporting to NSLDS	F-08-02
3 Student Financial Assistance – Special Tests and Provisions – Borrower Data Transmission and Reconciliation – Late Reporting to the Department of Education	F-08-03
4 Student Financial Assistance – Reporting – Failure to Report Overpayment to the NSLDS	F-08-04
5 Higher Education – Allowable Costs – Payroll Expenditures Charged to the Program	F-08-05
6 Higher Education – Equipment Management – Equipment Policies and Procedures	F-08-06
7 Higher Education – Allowable Costs – Time and Effort Requirement	F-08-07
8 Higher Education – Procurement – Support for Price/Cost Analysis and Suspension and Debarment	F-08-08
9 Higher Education – Reporting – Annual Performance Reports	F-08-09
10 TRIO – Allowable Costs – Payroll Expenditures Charged to the Program	F-08-10
11 TRIO – Earmarking – Student Participation Requirement	F-08-11
12 TRIO – Procurement, Suspension and Debarment – Support for Price/Cost Analysis	F-08-12
13 TRIO – Reporting – Annual Performance Reports	F-08-13
14 CTE – Allowable Costs – Salary Expenditures Charged to the Program	F-08-14
15 CTE – Equipment Management – Equipment Policies and Procedures	F-08-15
16 CTE – Procurement – Support for Price/Cost Analysis and Suspension and Debarment	F-08-16

#### **Finding F-08-01 – Special Tests and Provisions – Disbursements To or On Behalf of Students – Late Disbursement of FFEL Funds to Student or Parent**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.032
<i>Federal Program Name:</i>	Student Financial Assistance Cluster: Federal Family Education Loan (FFEL)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles Pierce College, West Los Angeles College

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*Federal Award Number and Award  
Year:*

OPE ID No. 00122600, FFEL ID: 001226, July 1, 2007  
to June 30, 2008

OPE ID No. 00859600, FFEL ID: 008596, July 1, 2007  
to June 30, 2008

#### *Criteria or Requirement*

TITLE 34 – EDUCATION, CHAPTER VI – OFFICE OF POSTSECONDARY EDUCATION,  
DEPARTMENT OF EDUCATION, PART 668 – STUDENT ASSISTANCE GENERAL PROVISIONS –  
Subpart K – Cash Management, Sec. 668.167 FFEL Program funds.

An institution must return FFEL Program funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by EFT and master check

#### *Condition Found*

During our procedures performed over the timing of the disbursements made to students who received FFEL, we noted one student from Los Angeles Pierce College and 5 students from West Los Angeles College of the total 30 students sampled, did not receive their payments within the required 3 business days from when the lender provided the electronic funds transfer to the District. These payments were disbursed to students between 4 to 13 business days after the electronic fund transfer from the banks, instead of the required 3 business days.

Total FFEL expenditures for the fiscal year ended June 30, 2008 amounted to \$5,340,669. The total disbursement for the 6 students is \$23,500 of the \$107,871 FFEL disbursements sampled.

#### *Questioned Costs*

\$23,500.

#### *Possible Asserted Cause and Effect*

Adequate monitoring controls do not appear to be in place to ensure that the timing of payments made to students are made within the required number of days, which resulted in the late disbursement of funds to the student or parent.

#### *Recommendation*

We recommend the District strengthen controls to ensure that FFEL payments to students or parents are made within the required time frames.

#### *Views of Responsible Officials and Planned Corrective Actions*

District Accounting will strengthen controls by enhancing cash management procedures to ensure that FFEL payments to students or parents are made within the required time frames.



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#### **Finding F-08-02 – Special Tests and Provisions – Student Status Changes – Late Reporting to National Student Loan Database System (NSLDS)**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.268, 84.032
<i>Federal Program Name:</i>	Student Financial Assistance Cluster: Federal Direct Student Loan (Direct Loan) and Federal Family Education Loan (FFEL)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College, Los Angeles Valley College, Los Angeles Pierce College
<i>Federal Award Number and Award Year:</i>	FFEL ID: 001223, OPE ID No. 00122300; July 1, 2007 to June 30, 2008  FFEL ID: 001228, OPE ID No. 00122800; July 1, 2007 to June 30, 2008

##### *Criteria or Requirement*

TITLE 34 – EDUCATION, CHAPTER VI – OFFICE OF POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 682 – FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAM – Subpart F – Requirements, Standards, and Payments for Participating Schools, Sec. 682.610 Administrative and fiscal requirements for participating schools, (c) Student status confirmation report (SSCRs).

Upon receipt of a SSCR form from the Secretary or a similar SSCR form from any guaranty agency, a school shall complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and unless it expects to submit its next SSCR to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days:

- If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis;
- If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended;
- If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or
- If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

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#### *Condition Found*

During our procedures performed over the reporting of student status changes for the FFEL and Direct loan programs, we noted 4 of the 30 students sampled with changes in status that occurred during the fiscal year were not reported in accordance with the required time frames. Student status changes are required to be reported to the NSLDS within 30 days of the status change, unless the SSCR is scheduled to be submitted within the next 60 days. The four exceptions noted are as follows:

- 1 exception (Los Angeles City College) noted where a status change was reported to the NSLDS after 78 days, and included in the SSCR that was remitted after 94 days, and
- 1 exception (Los Angeles Valley College) noted where a status change was reported to the NSLDS after 34 days, and included in the SSCR that was remitted after 78 days.
- 2 exceptions (Pierce College) noted where a status change was reported to the NSLDS after 42 and 59 days, and included in the SSCR that was remitted after 86 and 79 days.

Total FFEL and Direct Loan expenditures for the fiscal year ended June 30, 2008 amounted to \$5,340,669 and \$3,331,034, respectively.

#### *Questioned Costs*

The loans of the students with exceptions totaled \$14,300 of the \$108,812 disbursements sampled of FFEL and Direct loans.

#### *Possible Asserted Cause and Effect*

The District utilizes the National Student Loan Clearinghouse (NSLC) to report enrollment data and status changes to the NSLDS. Adequate monitoring controls do not appear to be in place to ensure that the status changes reported to the NSLC are being reported timely to the NSLDS in accordance with NSLDS Enrollment Reporting Guide, which resulted in late and nonreporting of the status changes.

#### *Recommendation*

We recommend the District strengthen controls to ensure that student status changes are reported to the NSLDS on a timely basis.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District reports enrollment data to the NSLC on a monthly basis. The NSLC processes our SSCR file on a monthly basis by updating the enrollment status of students on the received file within seven days of receipt of the file. The NSLC also reports enrollment updates to lenders and guarantors on a monthly basis based on a list of borrowers from the lenders. The four students in the sample were not on the SSCR file nor the lender files during the 30 or 60 days noted in the finding. The NSLC reported the enrollment status within seven days of the time the students were included in the lender files or the SSCR files. We will continue to work with the NSLC to ensure the student status changes are reported on a timely basis.

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#### **Finding F-08-03 – Special Tests and Provisions – Borrower Data Transmission and Reconciliation – Late Reporting to the Department of Education**

<i>Federal Catalog Number:</i>	84.268
<i>Federal Program Name:</i>	Student Financial Assistance Cluster: Federal Direct Student Loan (Direct Loan)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College, Los Angeles Pierce College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 00122300, Direct Loan ID: G01223; July 1, 2007 to June 30, 2008  OPE ID No. 00122600, Direct Loan ID: G01226; July 1, 2007 to June 30, 2008

#### ***Criteria or Requirement***

TITLE 34 – EDUCATION, CHAPTER VI – OFFICE OF POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 685 – WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM – Subpart C – Requirements, Standards, and Payments for Direct Loan Program Schools, Sec. 685.301 Origination of a loan by a Direct Loan Program school, (d) Reporting to the Secretary.

A school that participates under school origination option 2 must submit the promissory note, loan origination record, and initial disbursement record for a loan to the Secretary no later than 30 days following the date of the initial disbursement. The school must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made.

A school that participates under school origination option 1 or standard origination must submit the initial disbursement record for a loan to the Secretary no later than 30 days following the date of the initial disbursement. The school must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made.

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### Schedule of Findings and Questioned Costs

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#### *Condition Found*

During our procedures performed over the borrower data transmissions and reconciliations, we noted the information for 4 of our 30 Direct Loan borrowers sampled was not reported to the Department of Education through the use of the Common Origination and Disbursement (COD) system in accordance with the required time frames. Borrower data is required to be reported to the Department within 30 days of the loan disbursement. These four exceptions we noted were as follows:

- The information of 3 borrowers (Los Angeles City College) was reported to the Department of Education after 47 to 78 days, and
- The information of 1 borrower (Los Angeles Pierce College) was reported to the Department of Education after 35 days.

Total Direct Loan expenditures for the fiscal year ended June 30, 2008 amounted to \$3,331,034.

#### *Questioned Costs*

The loans of the students with exceptions totaled \$14,066 of the \$93,092 disbursements sampled.

#### *Possible Asserted Cause and Effect*

Upon further inquiry with Los Angeles City College personnel, the loan information of the borrowers was submitted within 30 days of the disbursement. However, the data transmission problems and subsequent winter break caused the data transmission to be reflected in COD after 30 days of the direct loan disbursements.

Also, adequate monitoring controls do not appear to be in place to ensure that the borrower information is reported to the Department of Education within 30 days, which resulted in the late reporting.

#### *Recommendation*

We recommend the District strengthen monitoring controls to ensure that loan disbursement information is reported to COD on a timely basis.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will strengthen monitoring controls to ensure that loan disbursement information is reported to COD on a timely basis by automating the disbursement being reported to COD. The Direct Loan disbursements noted were entered into EDEExpress on time but were not transmitted until after the monthly reconciliations showed the discrepancy.

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#### Finding F-08-04 – Reporting – Failure to Report Overpayment to the NSLDS

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375
<i>Federal Program Name:</i>	Student Financial Assistance Cluster: Federal Supplement Educational Opportunity Grants (FSEOG), Federal Family Education Loans (FFEL), Federal Work Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loan (Direct Loan), Academic Competitiveness Grant
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	East Los Angeles College, Los Angeles Trade-Technical College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 02226000, Direct Loan ID: G22260; July 1, 2007 to June 30, 2008  OPE ID No. 00122700, Direct Loan ID: N/A; July 1, 2007 to June 30, 2008

##### *Criteria or Requirement*

#### TITLE 34 - EDUCATION

CHAPTER VI – OFFICE OF POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 668 STUDENT ASSISTANCE GENERAL PROVISIONS, Subpart B. Standards for Participation in Title IV, HEA Programs, Sec. 668.22 Treatment of title IV funds when a student withdraws. (h) Return of unearned aid, responsibility of the student.

(4) (iv) An institution must refer to the Secretary, in accordance with procedures required by the Secretary, an overpayment of title IV, HEA grant funds owed by a student as a result of the student's withdrawal from the institution if:

- A. The student does not repay the overpayment in full to the institution, or enter a repayment agreement with the institution or the Secretary in accordance with paragraph (h)(4)(i) of this section within the earlier of 45 days from the date the institution sends a notification to the student of the overpayment, or 45 days from the date the institution was required to notify the student of the overpayment;
- B. At any time, the student fails to meet the terms of the repayment agreement with the institution entered into in accordance with paragraph(h)(4)(i)(B) of this section; or
- C. The student chooses to enter into a repayment agreement with the Secretary.

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#### *Condition Found*

During our procedures performed over reporting, we noted the student's portion of award overpayment for 5 of the 30 students sampled was not reported to the Department of Education through the use of the NSLDS. These students had not repaid the District and had not made a repayment agreement. The five exceptions noted are as follows:

- The overpayment of 3 students (East Los Angeles College) was not reported to the Department of Education, and
- The overpayment of 2 students (Los Angeles Trade-Technical College) was not reported to the Department of Education.

Total student financial assistance programs expenditures for the fiscal year ended June 30, 2008 amounted to \$83,337,123. The overpayment of the students with exceptions totaled \$3,364 of the \$17,782 student overpayments sampled.

#### *Questioned Costs*

\$3,364.

#### *Possible Asserted Cause and Effect*

Adequate monitoring controls do not appear to be in place to ensure that the student's portion of overpayment is reported to the Department of Education when the repayment from the student is not made on a timely basis.

#### *Recommendation*

We recommend the District strengthen monitoring controls to ensure that student's portion of the overpayment is reported to the NSLDS on a timely basis, after sending the notification to the students.

#### *Views of Responsible Officials and Planned Corrective Actions*

The College Financial Aid Managers will strengthen controls to ensure that the student's portion of the overpayment is reported to the NSLDS on a timely basis by assigning the reporting function to one staff and the monitoring function to another person.

#### **Finding F-08-05 – Allowable Costs – Payroll Expenditures Charged to the Program**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A

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<i>Campus:</i>	West Los Angeles College, Pierce College
<i>Federal Award Number and Award Year:</i>	P031A020161; P031S050038; P031S040010; P031S060049; October 1, 2007 to September 30, 2008

#### *Criteria or Requirement*

OMB Circular A-21, *Cost Principles for Educational Institutions*, Part J General provisions for selected items of cost, Section 10 – Compensation for personal services, payroll distribution – criteria for acceptable methods.

- (a) The payroll distribution system will:
  - (i) be incorporated into the official records of the institution;
  - (ii) reasonably reflect the activity for which the employee is compensated by the institution; and
  - (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)
- (b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.
- (c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b.(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.
- (d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
- (e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.



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- (f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.
- (g) For systems that meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

#### *Condition Found*

During our procedures performed over expenditures charged to the program, we selected a sample of expenditures charged by various campuses to ascertain if they were allowable per OMB cost circulars and program regulations. In our sample of 50 salary expenditures, we noted the following 4 exceptions with regard to after-the-fact confirmation of time at Pierce College and West Los Angeles College:

- The first exception was noted at Pierce College for the Title III subprogram. The payroll expense related to a two-week period; however, only one of the biweekly timesheets was reviewed and signed off by an immediate supervisor.
- The remaining three exceptions were noted at West Los Angeles College and related to both the Title V – Institutional and Title V – Coop subprograms. The exceptions were because the time and effort reports were not reviewed, approved, and signed off by an immediate supervisor.

KPMG also noted that 3 of the 50 payroll samples selected were exceptions with regard to the accuracy of amounts paid to employees:

- For two of these exceptions, the District was unable to provide supporting documentation for the FTE of counselors. The District and the campuses did not keep records to verify the two employees' utilization on their particular assignments.
- The final exception was noted because the support provided for the FTE varied from the FTE allocation per the accounting system. This resulted in an \$82 discrepancy.

Total salary expenditures for this program amounted to \$2,861,710 for the fiscal year ended June 30, 2008.

#### *Questioned Costs*

\$28,326 of the \$137,350 sampled that was charged to the program (\$21,672 after-the-fact confirmation of time and \$6,654 unsupported FTE).

#### *Possible Asserted Cause and Effect*

There do not appear to be adequate policies and procedures in place regarding time and effort documentation requirements or effective monitoring controls in place to assist with compliance.

The District has implemented district-wide policies and procedures in regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation in regard to after-the-fact confirmation of program assignments (i.e., time certifications). The District has chosen to give each campus (and each federal program within each campus) autonomy to create their own methodology and forms in an attempt to comply with such requirements. In the absence of district-wide policies and procedures to achieve consistency, there appears



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to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements.

The risk of noncompliance increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is increased risk that the time charged to the program will not reasonably reflect the actual time expended.

We also noted there has been no monitoring system established to provide for independent internal evaluations to ensure the payroll system's effectiveness and compliance with the time and effort requirements.

#### ***Recommendation***

We recommend the District strengthen existing policies, procedures and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.

#### ***Views of Responsible Officials and Planned Corrective Actions***

The District will provide additional training on procedures for documenting time and effort so accurate time reporting and proper supporting documentation are maintained for payroll expenses charged to the HE program.

### **Finding F-08-06 – Equipment Management – Equipment Policies and Procedures**

#### ***Federal Program Information***

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Mission College, West Los Angeles College, Pierce College
<i>Federal Award Number and Award Year:</i>	P031S040034; P031S060049; P031A020161; P031S070075; P031S040010; October 1, 2007 to September 30, 2008

#### ***Criteria or Requirement***

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Property Standards, Section 0.34 Equipment.

- A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented.

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- The recipient's property management standards for equipment acquired with federal funds and federally owned equipment shall include all of the following.
- Equipment records shall be maintained accurately and shall include the following information:
  - (i) A description of the equipment.
  - (ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
  - (iii) Source of the equipment, including the award number.
  - (iv) Whether title vests in the recipient or the federal government.
  - (v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost.
  - (vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government).
  - (vii) Location and condition of the equipment and the date the information was reported.
  - (viii) Unit acquisition cost.
  - (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.
- A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

#### *Condition Found, Including Perspective*

- During control procedures performed over equipment management, we noted that no controls over equipment management were identified at Mission College and Pierce College (two of the three locations tested). Furthermore, no reconciliation was performed between the District office's cumulative asset listing and the physical equipment located at these campuses. In addition, we noted that at West Los Angeles College, a physical inventory count and reconciliation were performed, but the College was unable to provide evidence of review for the count and reconciliation. Furthermore at Mission College, an annual physical inventory count of campus equipment is performed by a third-party service organization. However, the inventory listing does not segregate equipment that was purchased with general funds and with federal HE funds. Finally, no reconciliation between the physical inventory count and equipment records was maintained by the program at Mission College.

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- During compliance procedures performed over equipment management, we noted that there were data elements missing from the equipment listings as required by federal regulations such as the "condition" of the equipment.

#### *Questioned Costs*

\$160,382 total assets subject to equipment management purchased at the three colleges noted above. Total equipment purchased cumulatively was \$411,045 for all colleges within the District.

#### *Possible Asserted Cause and Effect*

The District does not have a policy that requires its campuses to submit physical inventories of its equipment annually or biannually nor does it require any reconciliation of those inventories to the cumulative listing of assets maintained by the District office. Not performing physical inventories and reconciling physical equipment to the District cumulative asset listing increases the risk of theft or misappropriation of program equipment.

#### *Recommendations*

We recommend the District strengthen policies and procedures to ensure that federal equipment management regulations are followed. These policies should include appropriate identification and tracking and physical inventories and reconciliation to promote accurate reporting and reduce the risk of misappropriation of assets of the program.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on inspections and reconciliation of purchased fixed assets to ensure full compliance with federal equipment management regulations.

#### **Finding F-08-07 – Allowable Costs – Time and Effort Requirement**

##### *Federal program Information*

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	West Los Angeles College
<i>Federal Award Number and Award Year:</i>	P031S040010; P031S050038; October 1, 2007 to September 30, 2008

##### *Criteria or Requirement*

Code of Federal Regulations; 2 Section 215.51; OMB Circular A-110, *Part 215 – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; Monitoring and reporting program performance.

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Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section 215.26.

#### *Condition Found, Including Perspective*

During control procedures performed over allowable cost requirements (time and effort) for program directors, we noted that there was no control identified at one of the locations tested (West Los Angeles College). We noted that the program directors for the *Title V Institutional* and *Title V Coop* subprograms completed time and effort reporting forms, verifying their percentage of time spent on the program. However, the form is signed only by the Program Director and not signed and reviewed by their immediate supervisor (i.e., Vice President of Academic Affairs at West Los Angeles College) to ensure that they have met the time dedication requirement as stated on the grant agreement.

#### *Questioned Costs*

Not applicable.

#### *Possible Asserted Cause and Effect*

The District has implemented district-wide policies and procedures in regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation in regard to after-the-fact confirmation of program assignments (i.e., time certifications). The District has chosen to give each campus (and each federal program within each campus) autonomy to create its own methodology and forms in an attempt to comply with such requirements. In the absence of district-wide policies and procedures to achieve consistency, there appears to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements.

The risk of noncompliance increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is increased risk that the time charged to the program will not reasonably reflect the actual time expended.

#### *Recommendations*

We recommend the District strengthen policies and procedures to ensure that documentation to support grant agreement requirements are retained for the required period of time.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will strengthen policies and procedures to ensure that documentation to support grant agreement records are retained for the required period and signed off by the Vice President of Academic Affairs.

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

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**Finding F-08-08 – Procurement – Support for Price/Cost Analysis & Suspension and Debarment**

***Federal Program Information***

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Mission College, Pierce College, West Los Angeles College
<i>Federal Award Number and Award Year:</i>	P031S040034; P031S060049; P031A020161; P031S050038; October 1, 2007 to September 30, 2008

***Criteria or Requirement***

CFR 34 – EDUCATION, PART 74 – ADMINISTRATION OF GRANTS AND AGREEMENTS WITH INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, AND OTHER NON-PROFIT ORGANIZATIONS, Subpart C – Post-Award Requirements, Sec. 74.44 and 74.45 Cost and price analysis.

Sec. 74.44(d) Procurement Procedures.

- Contracts are made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of the proposed procurement. Consideration is given to matters as contractor integrity, record of past performance, financial and technical resources, or accessibility to other necessary resources. In certain circumstances, contracts with certain parties are restricted by E.O. 12549 (implemented by the Secretary in 34 CFR Part 85) and E.O. 12689 – Debarment and Suspension.

Sec. 74.45 Cost and price analysis.

- Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices, and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

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#### *Condition Found, Including Perspective*

The District procurement policy is not in compliance with the federal procurement requirements because the District does not *require* a price/cost analysis for purchase orders under \$5,000. The District policy only *recommends* that an analysis should be performed. During compliance procedures performed over procurement, we noted that 5 of the 30 samples were exceptions.

- Four exceptions were noted at Mission College and Pierce College where a price/cost analysis was not properly performed and documented. Furthermore, the colleges did not document the justification for the limitation in competition.
- One exception was noted at West Los Angeles College where a price/cost analysis was not performed and documented on a timely basis. West Los Angeles College provided documentation as to why the particular vendor was selected. However, we noted that the analysis was performed and documented on September 10, 2008, which is subsequent to our audit request date.

Furthermore, we noted that 8 out of the 30 samples were exceptions because the client was not able to provide documentation to validate that they had verified that the vendors were not suspended or debarred according to the excluded parties list system (EPLS) or could not provide a vendor certification.

#### *Questioned Costs*

\$45,920 of the \$85,198 procurement transactions sampled (\$20,836 relates to cost/price analysis and \$25,084 relates to suspension and debarment).

#### *Possible Asserted Cause and Effect*

Through our discussion with the District, we noted each of its nine campuses are given autonomy to develop their own policies and procedures to comply with required cost and price analyses. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing the information to be completed on the "purchase request form," we noted that it does not have any designated spaces for the requestor to document the cost and price analysis performed or justification for the decision made. The form also does not contain any designated space for the requestor to document the justification for any noncompetitive bidding (i.e., preapproved vendor, sole source supplier, or brand requirement). Not establishing clear prescriptive forms for its campuses to complete to support required procedures performed increases the risk that all required documentation to support cost and price analysis performed will not be retained.

#### *Recommendations*

We recommend that the District enhance current policies, procedures, forms, and monitoring controls to ensure that campuses are in compliance with required cost and price analysis and suspension and debarment requirements.

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#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on cost and price analysis and suspension and debarment requirements to ensure full compliance with federal procurement requirements.

#### **Finding F-08-09 – Reporting – Annual Performance Reports**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Mission College
<i>Federal Award Number and Award Year:</i>	P031S040034; October 1, 2007 to September 30, 2008

##### *Criteria or Requirement*

Code of Federal Regulations, 2 Section 215.51, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations – Monitoring and reporting program performance.

Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section 215.26.

##### *Condition Found, Including Perspective*

During procedures performed over reporting requirements, we were unable to identify sufficient controls at one of the three locations tested (Mission College). We were unable to obtain evidence that an individual immediately involved and knowledgeable with the program (i.e., Vice President of Academic Affairs) had reviewed and signed off on the annual performance report before submission to the government.

##### *Questioned Costs*

Not applicable.

##### *Possible Asserted Cause and Effect*

Adequate monitoring controls do not appear to be in place to ensure that the student and financial information reported to the government is accurate and complete.



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#### *Recommendations*

We recommend the District strengthen policies and procedures to ensure that appropriate individuals involved with the program at each campus are properly monitoring and reviewing the annual performance reports and that evidence is retained regarding this control process.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will strengthen its procedures by having the appropriate Vice President sign off and retain the annual performance report to ensure adequate controls are in place for monitoring and reviewing these reports.

#### **Finding F-08-10 – Allowable Costs – Payroll Expenditures Charged to the Program**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.082, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	West Los Angeles College
<i>Federal Award Number and Award Year:</i>	P042A050091; P047A030860; P044A020872; P066A020177; September 1, 2007 to August 31, 2008

##### *Criteria or Requirement*

OMB Circular A-21, *Cost Principles for Educational Institutions*, Part J General provisions for selected items of cost, Section 10 – Compensation for personal services, payroll distribution – criteria for acceptable methods.

- The payroll distribution system will:
  - (i) be incorporated into the official records of the institution;
  - (ii) reasonably reflect the activity for which the employee is compensated by the institution; and
  - (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)
- The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a



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requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.

- The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (subsection b.(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.
- Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
- Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.
- The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.
- For systems that meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

#### *Condition Found, Including Perspective*

During our procedures performed over expenditures charged to the program, we selected a sample to ascertain if they were allowable and compliant with OMB cost circulars and program regulations. In our sample of 42 salary expenditures, we noted the following 20 exceptions:

- 20 of the 42 employees sampled were exceptions as there were no certifications and/or program timesheets to support the time charged to the program. The timesheets provided were generic and not program specific or did not indicate the activities performed (direct or indirect) to support the hours charged to the program at West Los Angeles College.

Total salary expenditures for this program amounted to \$3,109,435 for the fiscal year ended June 30, 2008.

#### *Questioned Costs*

\$21,320 of the \$87,149 sampled that was charged to the program.

#### *Possible Asserted Cause and effect*

There do not appear to be adequate policies and procedures in place regarding time and effort documentation requirements or effective monitoring controls in place to assist with compliance.

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The District has implemented district-wide policies and procedures in regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation in regards to after-the-fact confirmation of program assignments (i.e., time certifications). The District has chosen to give each campus (and each federal program within each campus) autonomy to create their own methodology and forms in an attempt to comply with such requirements. In the absence of district-wide policies and procedures to achieve consistency, there appears to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements.

The risk of noncompliance increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is increased risk that the time charged to the program will not reasonably reflect the actual time expended.

We also noted there has been no monitoring system established to provide for independent internal evaluations to ensure the payroll system's effectiveness and compliance with the time and effort requirements.

#### *Recommendations*

We recommend the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on procedures for documenting time and effort so accurate time reporting and proper supporting documentation are maintained for payroll expenses charged to the TRIO program.

#### **Finding F-08-11 – Earmarking – Student Participation Requirement**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.082, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>College:</i>	Los Angeles Southwest College
<i>Federal Award Number and Award Year:</i>	P042A050900; September 1, 2007 to August 31, 2008

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#### *Criteria or Requirement*

Code of Federal Regulations, 34 – Education, Section 646.11(SS), Section 643.10(TS), Section 645.21 (UB), Section 644.10 (EOC), Office of Postsecondary Education, Department of Education – Program Assurances.

#### *Student Support Services (SSS)*

- At least two-thirds of the students the program will serve in its SSS project will be:
  - (1) Low-income individuals who are first-generation college students; or
  - (2) Individuals with disabilities;
- The remaining students it will serve will be low-income individuals, first-generation college students, or individuals with disabilities;
- Not less than one-third of the individuals with disabilities will be low-income individuals.

#### *Talent Search (TS)*

- At least two-thirds of the individuals it serves under its proposed TS project will be low-income individuals who are potential first-generation college students.

#### *Upward Bound (UB)*

- Not less than two-thirds of the project's participants will be low-income individuals who are potential first-generation college students, and
- The remaining participants will be either low-income individuals or potential first-generation college students.

#### *Educational Opportunity Centers (EOC)*

- At least two-thirds of the individuals it serves under its proposed EOC project will be low-income individuals who are potential first-generation college students.

#### *Condition Found, Including Perspective*

We noted that one of the subprograms tested was not in compliance with student participation requirements (SSS at Los Angeles Southwest College). We could not recalculate the required percentage of students served that were low-income and potential first generation students or students with disabilities because the client was unable to provide a student listing with detailed classifications that agreed to the year-end annual performance report.

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The client did provide a student listing that agreed to the total number of students served on the annual performance report. However, the listing was not detailed by the specific classifications (i.e., low-income and potential first generation; low-income only; potential first-generation only; individuals with disabilities; individuals with disabilities and low-income). As such, we could not determine if the District met the applicable earmarking requirement.

#### *Questioned Costs*

\$475,867 related to the SSS program at Los Angeles Southwest College.

#### *Possible Asserted Cause and Effect*

There do not appear to be adequate policies and procedures in place for documentation retention. In addition, program personnel need training on how to use the student data systems so that they can run queries for information needed.

#### *Recommendations*

We recommend that the District strengthen controls and provide technical training to ensure that students reported are accurate and updated to ensure compliance with student participation requirements for the program. Furthermore, the District should also provide training to operate student data systems to query reports.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will strengthen controls and provide the training to ensure full compliance with student participation requirements for each federally funded program. The college will provide staff additional training on operating student data systems in December 2008.

#### **Finding F-08-12 – Procurement, Suspension, & Debarment – Support for Price & Cost Analysis**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.082, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Supporting Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles Southwest College, West Los Angeles College
<i>Federal Award Number and Award Year:</i>	P044A021099; P066A070252; P047A030860; September 1, 2007 to August 31, 2008

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#### *Criteria or Requirement*

OMB Circular A-110, *Code of Federal Regulations*, Title 34 – Education, Part 74 – Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C – Post-Award Requirements Section 74.45: Cost and Price Analysis.

- Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

#### *Condition Found, Including Perspective*

During procedures performed over program procurement requirements, we reviewed the District's procurement policies to ascertain their policy in regards to purchase thresholds for required cost and price analysis to be performed in connection with a procurement transaction. The District's policy requires 3 quotes to be obtained for purchases over \$5,000 and competitive bidding performed if the purchase exceeds \$69,000. The District procurement policy is not in compliance with the federal procurement requirements because the District does not require a price/cost analysis for purchase orders under \$5,000. The District policy only recommends that an analysis should be performed.

We sampled 30 program expenditures and requested support for the cost and price analysis performed over each transaction. eight exceptions were noted as follows:

- For seven samples, the client did not perform any price/cost analysis at the time of the purchase request (Los Angeles Southwest College and West Los Angeles College).
- For one sample, the client documented the price/cost analysis subsequent to the processing of the purchase request (West Los Angeles College). It appears the documentation was provided after-the-fact to satisfy our audit request. We could not validate when the analysis was performed as there was no signature or date on the support provided.

#### *Questioned Costs*

\$11,512 of the \$48,498 procurement transactions sampled.

#### *Possible Asserted Cause and Effect*

Through our discussion with the District, we noted each of its nine campuses is given autonomy to develop their own policies and procedures to comply with required cost and price analyses. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing the information to be completed on the "purchase request form," we noted that it does not have any designated spaces for the requestor to document the cost and price analysis performed or justification for the decision made. The form also does not contain any designated space for the requestor to document the justification for any noncompetitive bidding (i.e., preapproved vendor, sole-source supplier, or brand requirement). Not establishing clear prescriptive forms for its campuses to complete to

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of Findings and Questioned Costs

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support required procedures performed increases the risk that all required documentation to support cost and price analysis performed will not be retained.

#### *Recommendations*

We recommend that the District enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required cost and price analysis requirements.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on cost and price analysis and suspension and debarment requirements to ensure full compliance with federal procurement requirements.

#### **Finding F-08-13 – Reporting – Annual Performance Reports**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.082, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Supporting Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	N/A
<i>Campus:</i>	West Los Angeles College
<i>Federal Award Number and Award Year:</i>	P066A020177; September 1, 2007 to August 31, 2008

##### *Criteria or Requirement*

Institutions should have internal controls in place to reasonably ensure the accuracy of information included in annual performance reports as specified in 34 CFR Section 644.7.

##### *Condition Found, Including Perspective*

During procedures performed over the accuracy of information reported, we noted that 1 of the 30 students sampled for testwork from the year-end performance report (EOC sub-program at West Los Angeles College) was classified incorrectly as “only a low-income student.” The student was both “low-income and potential first-generation college student.”

##### *Questioned Costs*

Not applicable.

##### *Possible Asserted Cause and Effect*

Adequate monitoring controls do not appear to be in place to ensure that the student and financial information reported to the government is accurate and complete.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

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#### *Recommendations*

We recommend the District strengthen policies and procedures to ensure that information reported is reviewed against supporting documentation (i.e., student files) to ensure accuracy.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will strengthen its procedures on the required retention period and that student files are reviewed for appropriate status to ensure that documentation to support the annual performance report is accurate.

#### **Finding F-08-14 – Allowable Costs – Salary Expenditures Charged to the Program**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.048
<i>Federal Program Name:</i>	Career and Technical Education – Basic Grants to States
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	State of California Community Colleges Chancellor's Office
<i>Campus:</i>	Los Angeles City College, Los Angeles Trade Technology College, Pierce College
<i>Federal Award Number and Award Year:</i>	07-C01-027; July 1, 2007 to June 30, 2008

##### *Criteria or Requirement*

OMB Circular A-21, Cost Principles for Educational Institutions, Part J General provisions for selected items of cost, Section 10 – Compensation for personal services, payroll distribution – criteria for acceptable methods.

- (a) The payroll distribution system will:
  - (i) be incorporated into the official records of the institution;
  - (ii) reasonably reflect the activity for which the employee is compensated by the institution; and
  - (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in a subsection need not be included.)
- (b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative (F&A) cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation



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### Schedule of Findings and Questioned Costs

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by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.

- (c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (subsection b.(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.
- (d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
- (e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.
- (f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.
- (g) For systems that meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

#### *Condition Found, Including Perspective*

- During control and compliance procedures performed over the allowability of payroll expenditures, we noted that 11 out of 50 samples were exceptions (City and Trade) with regard to after-the-fact confirmation time. The supporting timesheets provided did not specifically state which program the employee had charged time.
- During our procedures performed over the accuracy of expenditures charged to the program, we noted for 1 of the 50 employees sampled, the District (Pierce) could not provide supporting documentation to verify the employee's hourly pay rate.

#### *Questioned Costs*

\$18,177 of the \$56,774 sampled that was charged to the program (\$15,657 related to allowability and \$2,520 related to accuracy).

#### *Possible Asserted Cause and Effect*

There do not appear to be adequate policies and procedures in place regarding time and effort documentation requirements or effective monitoring controls in place to assist with compliance.



## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of Findings and Questioned Costs

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The District has implemented district-wide policies and procedures in regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation in regard to after-the-fact confirmation of program assignments (i.e., time certifications). The District has chosen to give each campus (and each federal program within each campus) autonomy to create their own methodology and forms in an attempt to comply with such requirements. In the absence of district-wide policies and procedures to achieve consistency, there appears to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements.

The risk of noncompliance increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is increased risk that the time charged to the program will not reasonably reflect the actual time expended.

We also noted there has been no monitoring system established to provide for independent internal evaluations to ensure the payroll system's effectiveness and compliance with the time and effort requirements.

#### *Recommendations*

We recommend the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on procedures for documenting time and effort so accurate time reporting and proper supporting documentation are maintained for payroll expenses charged to the Career and Technical Education program.

#### **Finding F-08-15 – Equipment Management – Equipment Policies and Procedures**

##### *Federal Program Information*

<i>Federal Catalog Number:</i>	84.048
<i>Federal Program Name:</i>	Career and Technical Education – Basic Grants to States
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	State of California Community Colleges Chancellor's Office
<i>Campus:</i>	Pierce College, Los Angeles Trade Technology College
<i>Federal Award Number and Award Year:</i>	07-C01-027; July 1, 2007 to June 30, 2008

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### Schedule of Findings and Questioned Costs

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#### *Criteria or Requirement*

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Property Standards, Section .34 Equipment.

- A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented.
- The recipient's property management standards for equipment acquired with federal funds and federally owned equipment shall include all of the following.
- Equipment records shall be maintained accurately and shall include the following information:
  - (i) A description of the equipment.
  - (ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
  - (iii) Source of the equipment, including the award number.
  - (iv) Whether title vests in the recipient or the federal government.
  - (v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost.
  - (vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government).
  - (vii) Location and condition of the equipment and the date the information was reported.
  - (viii) Unit acquisition cost.
  - (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.
- A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2008

#### *Condition Found, Including Perspective*

During procedures performed over equipment management, we noted that controls over physical inspections and reconciliations to the general ledger were not designed appropriately at Pierce College and Los Angeles Trade Tech College. We noted that although annual inspections of equipment were performed, there was (a) no evidence of review of the annual physical inspections; (b) no evidence of review of the reconciliation of equipment inspected to the general ledger; or (c) the inspection was not performed in a timely manner.

In addition, we noted that the equipment listing maintained lacked certain data elements as required by federal regulations such as the "condition" of the equipment.

Finally, we noted that at Pierce and Trade Tech, the following equipment was reported stolen prior to June 30, 2008. However, when vouching the equipment to the general ledger, we noted that the stolen items were still incorrectly recorded on the listing at cost at June 30, 2008:

- Los Angeles Trade Technology College reported that two projectors were stolen in the amount of \$6,006.
- Los Angeles Trade Technology College reported that 5 laptops were stolen in the amount of \$7,318.
- Pierce College reported that 14 laptops were stolen in the amount of \$36,069.

#### *Questioned Costs*

\$108,577 assets subject to equipment management and \$49,393 stolen assets.

#### *Possible Asserted Cause and Effect*

The District neither has a policy that requires its campuses to *submit* physical inventories of its equipment annually or biannually nor does it require any reconciliation of those inventories to the cumulative listing of assets maintained by the District office. Not performing physical inventories and reconciling physical equipment to the District cumulative asset listing increases the risk of theft or misappropriation of program equipment.

#### *Recommendations*

We recommend that the District enhance current policies, procedures, and monitoring controls to ensure that campuses are in compliance with equipment management requirements.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on inspections and reconciliation of purchased fixed assets to ensure full compliance with federal equipment management regulations.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2008

#### **Finding F-08-16 – Procurement – Support for Price/Cost Analysis & Suspension and Debarment**

##### ***Federal Program Information***

<i>Federal Catalog Number:</i>	84.048
<i>Federal Program Name:</i>	Career and Technical Education – Basic Grants to States
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-Through Entity:</i>	State of California Community Colleges Chancellor's Office
<i>Campus:</i>	Los Angeles City College, Los Angeles Trade Technology College, Pierce College, Valley College
<i>Federal Award Number and Award Year:</i>	07-C01-027; July 1, 2007 to June 30, 2008

##### ***Criteria or Requirement***

OMB Circular A-110, *Code of Federal Regulations*, Title 34 – Education, Part 74 – Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations: Section 74.44: Procurement Procedures and Section 74.45: Cost and Price Analysis.

- *34 CFR 74.44(d) – Procurement Procedures*

Contracts are made only with responsible contractors who possess the potential ability to perform successfully under the terms and conditions of the proposed procurement. Consideration is given to matters as contractor integrity, record of past performance, financial and technical resources, or accessibility to other necessary resources. In certain circumstances, contracts with certain parties are restricted by E.O. 12549 (implemented by the Secretary in 34 CFR Part 85) and E.O. 12689

- Debarment and Suspension.  
34 CFR 74.45 – Cost and Price Analysis

Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of Findings and Questioned Costs

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#### *Condition Found, Including Perspective*

During procedures performed over program procurement requirements, we reviewed the District's procurement policies to ascertain if their guidelines in regard to purchase thresholds for required cost and price analysis was in compliance with federal regulations. The District's policy requires three quotes to be obtained for purchases over \$5,000 and competitive bidding performed if the purchase exceeds \$69,000. The District procurement policy is not in compliance with the federal procurement requirements because the District does not require a price/cost analysis for purchase orders under \$5,000. The District policy only recommends that an analysis should be performed. In addition we noted the following exceptions:

- 19 of the 40 samples selected were exceptions in regard to price or cost analysis. The following colleges did not provide documentation to support why those chose specific vendors (Los Angeles City College, Los Angeles Trade Technology College, Pierce College, and Valley College). Finally, the colleges did not document the justification in the limitation in competition.
- 1 of the 40 samples was an exception because the client was not able to provide documentation to show that the college verified that the vendor was not suspended or debarred from EPLS or received a vendor certification (Los Angeles Trade Tech College).

#### *Questioned Costs*

\$38,679 of the \$59,519 procurement transactions sampled related to price cost analysis and \$2,516 related to suspension and debarment.

#### *Possible Asserted Cause and Effect*

Through our discussion with the District, we noted each of its nine campuses is given autonomy to develop their own policies and procedures to comply with required cost and price analyses. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing the information to be completed on the "purchase request form," we noted that it does not have any designated spaces for the requestor to document the cost and price analysis performed or justification for the decision made. The form also does not contain any designated space for the requestor to document the justification for any noncompetitive bidding (i.e., preapproved vendor, sole-source supplier, or brand requirement). Not establishing clear prescriptive forms for its campuses to complete to support required procedures performed increases the risk that all required documentation to support cost and price analysis performed will not be retained.

#### *Recommendations*

We recommend that the District enhance current policies, procedures, forms, and monitoring controls to ensure that campuses are in compliance with required cost and price analysis and suspension and debarment requirements.

#### *Views of Responsible Officials and Planned Corrective Actions*

The District will provide additional training on cost and price analysis and suspension and debarment requirements to ensure full compliance with federal procurement requirements.

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## **SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS**

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# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of State Findings and Recommendations

Year ended June 30, 2008

### (4) Summary of State Findings and Recommendations

	Section	Finding numbers
1 State General Apportionment Funding – Census Reporting	424	S-08-01
2 Students Actively Enrolled – Census Reporting	426	S-08-02
3 Concurrent Enrollment of K-12 Students in Community College Credit Courses and Open Enrollment – Course Advertisement	427 and 435	S-08-03
4 Concurrent Enrollment of K-12 Students in Community College Credit Courses – Teacher Minimum Qualifications	427	S-08-04
5 Concurrent Enrollment of K-12 Students in Community College Credit Courses – Teacher Supervision	427	S-08-05
6 Concurrent Enrollment of K-12 Students in Community College Credit Courses – Approvals of Students to Attend Courses	427	S-08-06
7 Enrollment Fees – Netting of Accounts Receivable	432	S-08-07
8 CalWORKs – Use of State and Federal TANF Funds – Unallowable Fund Sources for Matching	433	S-08-08
9 California Work Opportunity and Responsibility to Kids (CalWORKS) Use of CalWORKS State Funds and CalWORKS Federal Temporary Assistance for Needy Families (TANF) Funds – Payroll	433	S-08-09
10 Student Fees – Instructional Materials Fees and Health Fees – Instructional Materials Fees	437	S-08-10
11 Use of Matriculation Funds – Matching	428	S-08-11
12 50% Law – Salaries of Classroom Instructor – Equipment Replacement	421	S-08-12

### S-08-01 – State General Apportionment Funding (Section 424) – Census Reporting

#### State Criteria

Each district shall have the ability to support timely, accurate, and complete information for the following workload measures used in the calculation of State General Apportionment:

- (1) Credit Full-Time Equivalent Students (FTES) in weekly census, daily census, actual hour of attendance, and apprenticeship courses.
  - (2) Noncredit FTES in actual hour of attendance and distance education courses.
- CCR, Title 5, Sections 58003.1, 58003.4, 58020, 58022, 58024, and 58030
  - Education Code Section 8152
  - Labor Code Section 3074

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

- Data Element Dictionary for California Community Colleges Management Information System.

#### *Identified Condition*

During testwork performed to ensure the accuracy of the FTES generated by the student information system (SIS), we reviewed the census/exclusion rosters to ensure that the FTES per the roster agreed to the SIS report. We noted that the FTES per the SIS report for 10 of 30 sections sampled did not agree with District supporting documentation. These differences consisted of the following:

- 10 sections at City (2), East (4), Mission (1), Pierce (2), Trade-Tech (1) colleges where the FTES per the census roster does not agree to the SIS report. These differences were attributed to timing from when the rosters were printed to the census date. As the census roster is printed several days prior to census date, the students listed on the roster may not represent the student's active in the class at census date. Students could have added the class after the roster was printed but prior to census date. There may be students in the class that were not on the roster or vice versa. The District was also unable to locate add slips to support that the students added sections before the census date. The district monitoring controls over document retention were also not sufficient to ensure that all adjustment documentation (i.e., student add permits) was retained to support apportionment claimed. As such it appears that the District overstated number of FTES on the SIS report.

Total reported FTES on the 320 report submitted to the state for the fiscal year ended June 30, 2008 amounted to 103,417.

#### *Full-Time Equivalent Students (FTES)*

4.92 FTES of the 122.79 FTES sampled.

#### *Questioned Costs*

\$17,288.63 (4.92 FTES exceptions x \$3,513.95)

#### *Recommendation for Corrective Action*

We recommend the District strengthen its control processes to help ensure that FTES per the SIS report is accurate and complete. The District should strengthen controls to ensure that add slips and other supporting documentation are properly retained.

#### *District Response*

The District will strengthen procedures to help ensure that FTES per the SIS report is accurate and complete.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-02 – Students Actively Enrolled (Section 426) – Census Reporting**

##### ***State Criteria or Requirement***

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

- CCR, Title 5, Sections 58003.1, 58004, 58005, and 58051
- Student Attendance Accounting Manual (SAAM), California Community Colleges

##### ***Identified Condition***

During testwork performed to ensure the accuracy of the FTES per the 320 Report, we selected 50 students from the 320 Report detail and verified whether or not they should be claimed for FTES. We noted seven students of East Los Angeles College were either no-shows or not-actives on the census/exclusion rosters, however, were still incorrectly claimed for FTES on the 320 Report.

The District asserts that these errors occurred because the instructor failed to perform the census count until more than two months after the census date (the census was taken on December 12, 2007; however, the actual census date was September 29, 2007). The District claims that several students that had been active as of September 29, 2007 were no longer active when the census taken on December 12, 2007. However, the District was unable to provide documentation to support that these students were active as of the census date.

The District monitoring controls over the documentation of the census were not sufficient to ensure that the census procedures were properly performed. The District also had insufficient controls to ensure that the rosters were made available to the instructors on a timely basis.

##### ***Full-Time Equivalent Students (FTES)***

0.745\* FTES of the 5.11 FTES sampled.

KPMG noted that the FTES impact of the findings was 0.745. However, the FTES also relates to “S-08-01 Apportionment Funding (Section 424) – FTES Reporting” as the courses selected for testwork here was also selected for testwork in S-08-01 and cited as a finding. KPMG included the questioned FTES in finding S-08-01. As such, we will not include 0.745 FTES in the questioned costs for this finding.

##### ***Questioned Costs***

N/A.

##### ***Recommendation for Corrective Action***

We recommend the District strengthen its control processes to help ensure that FTES per the 320 Report is accurate and complete. The District should also strengthen controls to ensure that add slips and other supporting documentation are retained for a period of three years.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### *District Response*

The District will strengthen procedures to help ensure that FTES per the 320 Report is accurate and complete.

#### **S-08-03 – Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Advertised & Open Enrollment (Section 435) – Course Advertisement**

##### *State Criteria or Requirement*

##### *Section 427*

A community college district may claim FTES for the attendance of K–12 pupils who take courses offered by the district under a concurrent enrollment arrangement.

- CCR, Title 5, Sections 51004, 51005, 51021, 53410, 55002, 55100, 58100 – 58108, 58050, 58051(a)(1), 58051.1, 58052, 58056(a), 58058, 58060, and 59300
- Education Code Sections 48800 – 48402, 76000 – 76002, and 84752
- Legal Opinions M 98-17 and M 02-20 issued by the Chancellor's Office, California Community College
- Legal Advisory 05-01, "Questions and Answers Re. Concurrent Enrollment" – issued January 5, 2005 by the Chancellor's Office, California Community Colleges

##### *Section 435*

Community college districts shall comply with the provisions related to open enrollment by the general public for all the courses being submitted for state apportionment.

- CCR, Title 5, Sections 51006, 58050(a)(3), 58051(c)(f), 58051.5, 58051.6, 58102, 58104, 58106
- Legal Advisory 05-01, "Questions and Answers Re. Concurrent Enrollment" – issued January 5, 2005 by the Chancellor's Office, California Community Colleges
- Legal Advisory 05-04, "Distance Education and Open Course Requirements" – issued May 10, 2005 by the Chancellor's Office, California Community Colleges

#### *Identified Condition*

During testwork performed to ensure that all classes claimed for state apportionment were open to all admitted students unless specifically exempted, we noted that for 13 (7 of which also relate to Open Enrollment (Section 435)) findings of the 50 class sections sampled. The District was not able to provide appropriate supporting documentation indicating that the class was properly advertised/offered to the public. These exceptions were as follows:

- Seven sections of Computer Science, Music, French, and Economics at Los Angeles City College were neither listed in the college's schedule of classes, nor was the college able to provide documentation that supported that the classes were alternatively posted on the college website.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

Therefore, KPMG was unable to determine whether the classes were properly advertised to the public.

- Six sections of Spanish, Vocational Education, and Basic Skills class at Los Angeles Trade Tech College were offered to the public after the publication of the regular schedule of classes. The courses were advertised solely via electronic media and, therefore, needed to be advertised to the public for at least 30 continuous days prior to the first meeting of the class. KPMG obtained print screens of the online advertisements of the courses but the college was unable to provide documentation to support that the courses were advertised for at least 30 continuous days prior to the first meeting of the class.

*California Community Colleges Chancellor's Office Legal Advisory 05-01* recommends Districts' to maintain dated hardcopy printouts of the web postings on file for audit purposes for a period of at least three years. However, the campus personnel did not appear to be adequately trained to ensure that proper documentation is retained. There also appeared to be insufficient monitoring by the District to ensure that campuses were following required policies.

#### ***Full-Time Equivalent Students (FTES) Impact***

128.43 FTES exceptions of the 406.72 FTES sampled.

#### ***Questioned Costs***

\$451,296.60 (128.43 FTES exceptions x \$3,513.95)

#### ***Recommendation for Corrective Action***

We recommend that the District strengthen controls to ensure supporting documentation for public notification of all courses including retaining any website postings for the required document retention period. The District should retain paper copies of all online course postings or addendums to the schedule of classes. For classes that were advertised solely via electronic media, the District should also note the date the advertisement commences and ends.

#### ***District Response***

The District will strengthen procedures to ensure supporting documentation for public notification of all courses including retaining any website postings for the required document retention period. Improvements to the web exclusion process were implemented January 2009.

#### **S-08-04 – Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Teacher Minimum Qualifications**

##### ***State Criteria or Requirement***

Employees of the District who teach credit courses must meet the minimum qualifications for community college instructors. In most cases, the minimum qualification is the possession of a master's degree in the discipline of the instructor's assignment, or the equivalent.

- CCR, Title 5, Section 53430

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### *Identified Condition*

During testwork performed to ensure that instructors met minimum qualification requirements to teach class sections with concurrently enrolled students, KPMG noted 2 findings out of the 50 instructors sampled.

- The District could not provide documents (i.e., college transcripts, employment letters) to support that the 2 instructors from Los Angeles Southwest (1) and West Los Angeles College (1) were qualified to teach at the District.

Through our discussions with the District we noted that adequate controls were not in place to ensure that teachers met the minimum qualifications before the instructors began their teaching assignment, nor were there any policies or procedures in place to address terminations of unqualified teachers.

#### *Full-Time Equivalent Students (FTES) Impact*

12.66\* FTES of the 406.72 FTES, sampled.

- \* KPMG noted that the FTES impact of the findings was 18.56 for courses selected in our sample. However, 5.9 FTES of the 18.56 total FTES also relate to "S-08-03 Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Course Advertisement" as the courses selected for testwork in S-08-03 were taught by the instructors selected for testwork here (S-08-04). Therefore 5.9 FTES were already cited as questioned costs in S-08-03. As such, we will not include 5.9 FTES in the questioned costs for this finding.

#### *Questioned Costs*

\$51,518 (12.66 FTES exceptions x \$3,513.95)

#### *Recommendation for Corrective Action*

We recommend the District implement policies and procedures to ensure that instructors meet the minimum credential qualifications before the courses are scheduled to begin. The District should implement a process of management review over the employment application process. Management at the District should review applications and verify that instructors meet the minimum qualifications (i.e., transcripts and work experience) prior to approving the application. Furthermore, document retention policies should be strengthened to ensure that personnel files are complete.

#### *District Response*

The District will strengthen procedures to ensure that instructors meet the minimum credential qualifications before the courses are scheduled to begin. A process for the management review of the employee application process has been created.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-05 – Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Teacher Supervision**

##### ***State Criteria or Requirement***

The District must comply with instructor supervision requirements and instructor qualification requirements. Educational activities of students used in computing FTES must be under the immediate supervision and control of an academic employee of the District who is authorized to render service in that capacity.

- CCR, Title 5, Sections 55002(a)(4), 55002(b)(4), 58050, 58051(a)(10), 58052, 58056, 58058, 58060, and 53410

##### ***Identified Condition***

During testwork performed to ensure that instruction for each course was conducted under the immediate supervision and control of a responsible district employee, we noted that 2 of the 50 instructors sampled did not appear to be in direct supervision of the classes tested. The instructors from City and Trade-Tech both taught two classes with overlapping schedules. As such, the courses were not directly supervised by a LACCD employee for the entire duration.

##### ***Full-Time Equivalent Students (FTES) Impact***

N/A\*.

- \* KPMG noted that the FTES impact of the findings noted was 15.35. However, the questioned FTES also relate to S-08-03 and S-08-04, as the courses selected for testwork in S-08-03 were taught by the instructors selected for testwork in S-08-04 and S-08-05. As such, we will not note any questioned costs for this finding.

##### ***Questioned Costs***

N/A.

##### ***Recommendation for Corrective Action***

We recommend the District implement policies and procedures to ensure that employees are able to provide immediate instructional supervision and control. The District should review and approve instructor schedules prior to commencement of instruction. Any scheduling conflicts should be resolved before the start of instruction.

##### ***District Response***

The District will strengthen procedures on instructor schedules to ensure that employees are able to provide immediate instructional supervision and control and assignments are input accurately.



## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-06 – Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Approvals of Students to Attend Courses**

##### ***State Criteria or Requirement***

The governing board of a school district may determine which pupils would benefit from advanced scholastic or vocational work. The intent of this section is to provide educational enrichment opportunities for a limited number of eligible pupils, rather than to reduce current course requirements of elementary and secondary schools, and also to help ensure a smoother transition from high school to college for pupils by providing them with greater exposure to the collegiate atmosphere. The governing board may authorize those pupils, upon recommendation of the principal of the pupil's school of attendance, and with parental consent, to attend a community college during any session or term as special part-time or full-time students and to undertake one or more courses of instruction offered at the community college level.

- California Education Code, Section 48800.

##### ***Identified Condition***

To ensure that K-12 students who were concurrently enrolled in community college courses had the proper approvals to attend class and could benefit from advanced scholastic or vocational work, we selected a sample of 50 K-12 students enrolled in courses offered by the District. We then ascertained if these students received the required approvals (i.e., K-12 school official and District personnel signatures) prior to enrolling in the community college courses. In our sample of 50 Applications, we noted that 1 student from Pierce College did not have the approval of the appropriate K-12 school official.

Since the K-12 school official must state that the student would benefit from the exposure to the collegiate atmosphere, the documented evidence of the K-12 school official's approval was necessary support. There did not appear to be appropriately designed monitoring controls in place at the college campuses to ensure that these applications were fully executed before the students enroll in the community college courses.

##### ***Full-Time Equivalent Students (FTES) Impact***

0.139 FTES exceptions of the 4.62 FTES sampled.

##### ***Questioned Costs***

\$488.44 (0.139 FTES exceptions x \$3,513.95)

##### ***Recommendation for Corrective Action***

We recommend that the District strengthen existing controls to ensure that all applications are completed with the required approvals before the students enroll at the colleges. The colleges should review the applications to ensure that all necessary information has been provided. District personnel should ensure that only the properly completed applications are approved.

##### ***District Response***

The District will strengthen procedures to ensure that all applications are completed with the required approvals before the students enroll at the colleges.



## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-07 – Enrollment Fees (Section 432) – Netting of Accounts Receivable**

##### ***State Criteria or Requirement***

Enrollment fee revenue includes the full amount of the fees charged, regardless of whether the fees are collected. Accounts receivable must be established to record the revenue on enrollment fees charged for the spring term or earlier if such fees are not collected by year-end. Uncollectible fees are accounted for as an expense of the District and not an abatement of enrollment fee revenue. Subsequent recovery of accounts that have been written off should be recorded as other local revenue and not enrollment fee revenue.

- Education Code Sections 76300, 76140(k), and 84757
- Form CCFS-323, Actual Enrollment Fee Revenue Report
- Form CCFS-311, Annual Financial and Budget Report
- Accounting Advisory No. 98-02, dated April 13, 1998
- Chancellor's Office Legal Opinion O 02-15, "Uncollected Enrollment Fee Revenue"
- Budget and Accounting Manual (BAM), Ch. 3, pg. 3.36

##### ***Identified Condition***

During testwork performed to ensure that District was not netting uncollected fee revenue against fees collected or net write-offs at the transaction level, we selected a sample 40 journal entries where the Enrollment Fee accounts receivable had been reversed. We reviewed the entries to verify that the receivables were reversed due to payments or because accounts receivable were written off and accounted for as abatements to revenues.

We noted 1 finding at Los Angeles Southwest College where the accounts receivable was written off as a direct reversal to A/R and revenue without increasing bad debt expense. As such, this resulted in an abatement to revenue instead of an increase to expense.

##### ***Dollar Amount Impact***

\$78.

##### ***Questioned Costs***

\$78 of the \$5,578 tested

##### ***Recommendation for Corrective Action***

We recommend that the District strengthen existing control process to ensure that enrollment fee write-offs are accounted for as an expense of the District and not as an abatement of enrollment fee revenues. The District should account for enrollment fee receivable write-offs as bad debt expense.

##### ***District Response***

The District will strengthen its procedures to ensure enrollment fees write-offs are accounted for properly.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-08 – CalWORKs – Use of State and Federal TANF Funds (Section 433) – Unallowable Fund Sources for Matching**

##### ***State Criteria or Requirement***

Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

- Education Code Sections 79200 – 79203 and 84759
- 2007 – 08 Final Budget Summary
- Chancellor's Office CalWORKs Program Handbook Guidelines
- Clarification on CalWORKs Supplantation Prohibition, Chancellor's Office Letter, March 13, 2006
- OMB A-133 Compliance Supplement

##### ***Identified Condition***

During procedures performed to ensure that the District complied with the requirement that CalWORKs expenditures must be matched from allowable sources as stated under the "State Criteria" listed above, KPMG obtained the CalWORKs 07-08 Year-End Expenditure reports for all nine campuses and the District. Per review of the expenditure reports, East Los Angeles College noted that \$65,675 of expenditures was matched using the CARE fund, which is explicitly stated as an unallowable funding source. As such, we noted this as an exception.

##### ***Unallowable Source Exception Impact***

One exception in the amount of \$65,675.

##### ***Questioned Costs***

\$65,675.

##### ***Recommendation for Corrective Action***

We recommend that the District strengthen existing control processes at the District and college levels and provide trainings to campus program directors to ensure that only allowable funds are used to match CalWORKs expenditures. We also recommend that district management perform a detailed review of the CalWORKs Annual Expenditure Report prior to submission to the state.

##### ***District Response***

The District will strengthen procedures to ensure that only allowable sources are used for matching program expenditures.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-09 – California Work Opportunity and Responsibility to Kids (CalWORKS) Use of CalWORKS State Funds and CalWORKS Federal Temporary Assistance for Needy Families (TANF) Funds (Section 433) – Payroll**

##### ***State Criteria or Requirement***

To the extent that funding is provided in the annual Budget Act, funds received by a community college for curriculum development or redesign for CalWORKs recipients may be expended for all of the following purposes:

- (a) To develop or redesign vocational curricula for CalWORKs recipients so that courses may be offered as part of a short-term intensive program, including Open Entry and Open Exit programs, and including intensive English language immersion.
  - (b) To link CalWORKs courses to job placement through work experience and internships.
  - (c) To redesign basic education and ESL classes so that they may be integrated with vocational training programs.
  - (d) To expand the use of telecommunications in providing the new curricula to CalWORKs recipients.
- Education Code Section 79203

##### ***Identified Condition***

During testwork performed to ensure that CalWORKs program expenditures reported to the Chancellor's Office agree with district accounting records, KPMG sampled 50 expenditures (25 payroll, 25 nonpayroll) to ascertain if expenditure amounts agree to the supporting documents.

Of the 25 payroll selections, we noted 1 finding where the amounts paid to the employees under the program were incorrect. The District's HR pay scale, listed for this employee is an hourly rate of \$14.78 for a total amount of \$1,965.74. However, upon review of the general ledger, this employee was actually paid \$15 per hour for a total amount of \$1,995. Therefore, the amount reported to the Chancellor's Office did not agree to the supporting documents.

There does not appear to be effective monitoring controls over the payroll process to ensure that amounts paid to employees are accurate. Total expenditures for CalWORKS amounted to \$6,503,272.

##### ***Questioned Costs***

\$29.26 of the \$51,310.51 sampled.

##### ***Recommendation for Corrective Action***

We recommend that the District periodically review employee remuneration against the pay rate tables established by the personnel department for the various positions to ensure accurate payment.

##### ***District Response***

The district will strengthen policies and procedures for pay rate tables to ensure accurate payments.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### **S-08-10 – Student Fees – Instructional Materials Fees and Health Fees (Section 437) – Instructional Materials Fees**

##### ***State Criteria or Requirement***

Express statutory authority is required to charge any mandatory student fees. In some cases, districts are required to charge fees, and in other cases, districts are permitted to charge mandatory fees. Districts may also charge fees that are optional in nature, provided that the fee is not in conflict or inconsistent with existing law, and is not inconsistent with the purposes for which the District has been established.

- CCR, Title 5, Section 51012 and 59400 – 59408
- Education Code Sections 70902, 76355, and 76365
- Student Fee Handbook, published by the Chancellor's Office for Community Colleges, October 2006
- AB 982 Health Fee Waiver Guidance and AB 982 Health Fee Waiver Q&A, Chancellor's Office

##### ***Identified Condition***

We performed testwork to identify the population of instructional materials fees charges by the District and tested a sample of instructional materials fees charged by the District to ensure that the instructional materials:

- (a) Had continuing value to the students outside of the classroom setting, and
- (b) Were tangible personal property that was owned or primarily controlled by the student.

We also performed testwork to ensure that the District can justify requiring the student to purchase the material from it (e.g., the required purchase from the District is based on a health of safety consideration). In addition, make sure that students are not charged more than the District's actual cost of the materials.

During our procedures performed over student fees charged by the District, we noted only Harbor College, Pierce College, and Los Angeles Trade Technical College recorded instructional materials fees to general ledger account #884800. The District also indicated that all materials fees were accounted for in general ledger account # 884800. In order to test completeness of materials fees account, we reviewed the other six campuses' "Schedules of Classes," we noted that two additional colleges, East Los Angeles College and Valley College, listed required instructional materials fees for various classes. Therefore, we noted that the general ledger detail for general ledger account # 884800 – instructional materials fees is incomplete. There did not appear to be sufficient technical training for the colleges to ensure that they properly classify student fees (i.e., instructional material fees) into the proper account.

In addition, we selected 11 samples from the general ledger detail provided to determine whether the fees met the criteria of an instructional materials fee, if the District could justify requiring the students to purchase the material from it, and ensure that the students were not charged more than the District's actual costs of material. The District was unable to provide sufficient descriptions of the fees, a detail of cost per unit for the fees, and additional support in order to perform our testwork.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### *Questioned Costs*

We cannot quantify the amount of questioned costs since classes with a required instructional material fee were not recorded to the proper account.

#### *Recommendation for Corrective Action*

We recommend that the District provide additional trainings to familiarize the accounting personnel at each of the campuses with the chart of accounts to ensure that instructional material fees are recorded correctly.

#### *District Response*

The District will strengthen procedures to ensure instructional material fees are recorded properly.

#### **S-08-11 – Use of Matriculation Funds (Section 428) – Matching**

##### *State Criteria or Requirement*

Districts are required to use local funds to support at least 75% of the credit matriculation activities with the remaining expenditures claimable against the state credit matriculation allocation. All expenditures related to the allocation, both State and local funded portions must be consistent with the District's state-approved matriculation plan. This 25% state fund, 75% local funds ratio applies district-wide not per college or within individual activity groups.

- CCR, Title 5, Sections 51024, 55500 – 55534, and 58106
- Education Code Sections 78210 – 78218

##### *Identified Condition*

We selected 40 expenses from the general ledger transaction level detail for District Match amounts. We then obtained supporting documentation (i.e., invoices, timesheets, and detailed descriptions) to determine that the matching expenses were appropriate and allowable (i.e., the 10 components outlined by the state) for inclusion as a matching expenditure. Of the 40 selections tested, we noted 3 findings from City (2) and Harbor (1) where the expenditures did not relate directly to the purpose of realizing the students' educational goals (i.e., assessment procedures, orientation). The expenditures were more general/administrative in nature (i.e., first-aid kits) and does not provide a direct benefit to the students.

##### *Questioned Costs*

\$202.21 of the \$86,884.90 expenditures sampled.

##### *Recommendation for Corrective Action*

We recommend that the District provide training at the campuses to ensure that the proper expenditures are classified as Matriculation matching expenses. The District management should also review the expenses used for matching for appropriateness.

## LOS ANGELES COMMUNITY COLLEGE DISTRICT

### Schedule of State Findings and Recommendations

Year ended June 30, 2008

#### *District Response*

The District will review more closely the expenses used for matching and provide training to ensure that the proper expenditures are classified as Matriculation matching expenditures.

#### **S-08-12 – 50% Law – Salaries of Classroom Instructor (Section 421) – Equipment Replacement**

#### *State Criteria or Requirement*

CALIFORNIA EDUCATION CODE, SECTION 84362 (c)

Each district's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education.

- Education Code Section 84362(c)

#### *Identified Condition*

During testwork performed to determine whether replacement equipment expenditures reported on the Report were accurately classified, We noted that for three of the six samples selected the District could not provide supporting documents (i.e., related disposal forms) to validate that the equipment were used to replace old, outdated, or damaged equipment. We noted that a total of \$13,525 of equipment replacements were reported in the Current Expense of Education on the 50% Law Analysis-CFSS-311 Report.

There does not appear to be effective monitoring controls to ensure that proper records are retained at the campus to support the accuracy of amounts reported to the 50% Law Analysis.

#### *Questioned Costs*

\$11,982 of the \$13,525 expenditures sampled.

#### *Recommendation for Corrective Action*

We recommend that the District strengthen controls to ensure that documents are retained in order to support expenditures reported.

#### *District Response*

The District will strengthen procedures in asset disposal to ensure the proper documents are used and retained in order to support expenditures reported.

**SCHEDULE OF PRIOR YEAR FINDINGS**

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# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs and of any other as yet unresolved audit finding from previous years.

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-07-01	Student Financial Aid Cluster: FFEL – Special Tests and Provisions – Disbursements to or on Behalf of Students – Disbursement of FFEL Funds to Student or Parent	We recommended the District strengthen controls to ensure that FFEL payments to students or parents are made within the required time frames.	Partially implemented	District Accounting will strengthen controls by enhancing cash management procedures to ensure that FFEL payments to students or parents are made within the required timeframes.
F-07-02	Student Financial Aid Cluster: FFEL – Special Tests and Provisions – Disbursements to or on Behalf of Students – Return of FFEL Funds to Lender	We recommended the District strengthen controls to ensure that FFEL payments to students are made within the required time frames.	Fully implemented	Not applicable
F-07-03	Student Financial Aid Cluster: FESOG, FFEL, FWS, FPL, PELL, Direct Loan and ACG – Return of Title IV – Return of Funds to Department of Education	We recommended the District strengthen controls to ensure that funds required to be returned to the Department of Education are made within 30 days.	Fully implemented	Not applicable

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-07-04	Student Financial Aid Cluster: Direct Loan and FFEL – Special Tests and Provisions – Student Status Changes – Reporting to National Student Loan Database System (NSLDS)	We recommended the District strengthen controls to ensure that student status changes are being appropriately reported to the NSLDS.	Partially implemented	The District is working with the Clearinghouse to ensure that student status changes are reported to NSLDS on a timely basis.
F-07-05	Student Financial Aid Cluster: Direct Loan – Special Tests and Provisions – Borrower Data Transmission and Reconciliation – Reported Disbursement Dates Reported	We recommended the District strengthen controls to ensure that disbursement dates are reported accurately to the DLSS.	Fully implemented	Not applicable
F-07-06	Student Financial Aid Cluster: FESOG, FFEL, FWS, FPL, PELL, Direct Loan and ACG – Eligibility – User Access Controls to EdExpress Software	We recommended the District strengthen user access monitoring controls to reduce the risk that inappropriate or unauthorized transactions may occur and not be detected.	Fully implemented	Not applicable

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-07-07	Higher Education Institutional Aid – Allowable Costs – Salary Expenditures Charged to the Program	We recommended the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.	Partially implemented	The District will provide additional training on procedures for documenting time and effort so accurate time reporting and proper supporting documentation are maintained for payroll expenses charged to the HE program.
F-07-08	Higher Education Institutional Aid – Allowable Costs – Endowment Challenge Grant Program	We recommended the District strengthen policies, procedures, and communications with its college campuses to ensure that only allowable matching funds are claimed in the endowment challenge grant, irrevocable charitable remainder trusts are accounted for appropriately under U.S. generally accepted accounting principles (U.S. GAAP), and that endowment contributions are deposited into segregated bank accounts.	Fully implemented	Not applicable
F-07-09	Higher Education Institutional Aid – Equipment Management – Equipment Policies and Procedures	We recommended that the District strengthen policies and procedures to ensure that federal equipment management regulations are followed. These policies should include appropriate identification	Partially implemented	The District will provide additional training on inspections and reconciliation of purchased fixed assets to ensure full compliance with federal equipment management regulations.

(Continued)

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
		and tracking, physical inventories and reconciliation, and tagging of assets to promote accurate reporting and reduce the risk of misappropriation of assets of the program. We also recommend that the District provide guidance to its campuses to ensure that equipment purchases are accurately reported on their annual performance reports.		
F-07-10	Higher Education Institutional Aid – Level of Effort – Supplement not Supplant	We recommended that the District enhance its current policies and procedures to ensure that its analysis contains only eligible activities and that adequate supporting documentation is retained.	Fully implemented	Not applicable
F-07-11	Higher Education Institutional Aid – Procurement, Suspension and Debarment – Support for Cost and Price Analysis	We recommended that the District enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required cost and price analysis requirements.	Partially implemented	The District will provide additional training on cost and price analysis and suspension and debarment requirements to ensure full compliance with federal procurement requirements.
F-07-12	Higher Education Institutional Aid – Annual Performance	We recommend the District strengthen policies and procedures to ensure that documentation to support	Partially implemented	The District will strengthen its procedures by having the appropriate VP sign off and retain the annual

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

<u>Finding reference</u>	<u>Finding description</u>	<u>Recommendation</u>	<u>Current status</u>	<u>Explanation if not fully implemented</u>
	Reports	required annual performance reporting is retained for the required retention period.		performance report to ensure adequate controls are in place for monitoring and reviewing these reports.
F-07-13	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers – Allowable Costs – Salary Expenditures Charged to the Program	We recommended the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.	Partially implemented	The District will provide additional training on procedures for documenting time and effort so accurate time reporting and proper supporting documentation are maintained for payroll expenses charged to the TRIO program.
F-07-14	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers – Allowable Costs – Entertainment Expenses	We recommended the District strengthen policies, procedures, and communications with its college campuses to ensure that only allowable costs are claimed against the program.	Fully implemented	Not applicable
F-07-15	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers – Eligibility – Approval of Participant	We recommended that the District strengthen policies and procedures to ensure that evidence be maintained to support appropriate reviews and approvals of student applications to participate in the program.	Fully implemented	Not applicable

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	Applications			
F-07-16	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers – Procurement, Suspension and Debarment – Support for Cost and Price Analysis	We recommended that the District enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required cost and price analysis requirements.	Partially implemented	The District will provide additional training on cost and price analysis requirements to ensure full compliance with federal procurement requirements.
F-07-17	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers– Procurement, Suspension and Debarment – Suspension & Debarment Verification or Certification	We recommended that the District enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required verification of EPLS requirements.	Fully implemented	Not applicable

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-07-18	Vocational Education – Basic Grants to States – Allowable Costs – Salary Expenditures Charged to the Program	We recommended the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.	Partially implemented	The District will provide additional training on procedures for documenting time and effort so accurate time reporting and proper supporting documentation are maintained for payroll expenses charged to the VTEA Perkins 1C program.
F-07-19	Vocational Education – Basic Grants to States – Equipment Management – Equipment Policies and Procedures	We recommended the District strengthen policies and procedures to ensure that federal equipment management regulations are followed.	Partially implemented	The District will provide additional training on inspections and reconciliation of purchased fixed assets to ensure full compliance with federal equipment management regulations.
F-07-20	Vocational Education – Basic Grants to States – Procurement, Suspension and Debarment – Suspension & Debarment Controls	We recommended that the District enhance current policies, procedures, forms and monitoring controls to ensure that its campuses are in compliance with required verification of EPLS requirements.	Partially implemented	The District will provide additional training on suspension and debarment requirements to ensure full compliance with federal procurement requirements.
S-07-01	Apportionment for Instructional Service Agreements/Contracts (Section 423) – Employee Contracts or Agreements	We recommended that the District strengthen policies and procedures by developing a more formally structured course/section coding system for the colleges so that the District can more accurately and completely track and report courses	Partially implemented	The District concurs with this finding. Information Technology and Admissions and Records will be consulted to identify a field that may be adapted for flagging instructional service agreement sections. While the section information system already contains a field for identifying

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
S-07-02	State General Apportionment Required Data Elements (Section 424) and Students Actively Enrolled (Section 426) – Census Reporting	taught under instructional service contracts agreements or on an off-campus facility, which would include classes taught on high school campuses.	Partially implemented	off-campus sections, the District will develop a mechanism for colleges to more easily extract this type of information.
		We also recommended the District strengthen its controls over its document retention policies at both the college campuses and at the District office to ensure that it properly maintains required documentation to support compliance with applicable rules and regulations.		The District has strengthened its controls over its document retention policies at both the college campuses and at the District office to ensure that it properly maintains required documentation to support compliance with applicable rules and regulations. Formal steps are being followed even as this process undergoes a review.
S-07-03	State General Apportionment Required Data Elements (Section 424) –	We recommended the District strengthen its control processes to help ensure that accurate and complete information for FTES is compiled accurately.	Fully implemented	The District concurs with this finding. Admissions and Records, Academic Affairs and Information technology will be consulted on how to improve processes so that FTES are compiled accurately and with the proper document retention. Web exclusion improvements implemented January 2009.
		We recommend that the District implement policies and procedures to ensure the accuracy and completeness of the resident students		The District concurs with this finding. Attendance Accounting will conduct a thorough review of procedures, reports, and formulas to ensure accuracy of



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	Apportionment Attendance Report	contained in the Report.		FTES reported.
S-07-04	Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Course Advertisement	We recommended that the District strengthen controls to ensure supporting documentation for public notification of all courses including any Web site postings is retained for the required document retention period.	Partially implemented	The District concurs with this finding. The District now has a formal group of Scheduling Deans with whom this issue will be consulted for advice on best practices and training. Academic Affairs is enforcing this requirement with scheduling and outreach units.
S-07-05	Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Teacher Minimum Qualifications	We recommended the District implement policies and procedures to ensure that instructors meet the minimum credential qualifications before the courses are scheduled to begin.	Partially implemented	The District concurs with this finding. Academic Vice Presidents will be consulted on the best methods to ensure the instructors are properly evaluated prior to instruction. Human Resources has developed a system to monitor timely processing of teachers minimum qualifications.
S-07-06	Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Approvals of Students to Attend Courses	We recommended that the District strengthen existing control process to ensure that all applications are completed with required documented approvals before the students enroll at the colleges.	Not implemented	The District concurs with this finding. District Admissions and Records committee will be advised on this requirement so that all applications are completed with required documentation.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
S-07-07	Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – K-12 Principal Certification of less than 5% Pupil Recommendation	We recommended that the campuses develop policies and procedures to obtain required certifications or develop alternative procedures to support compliance with this requirement.	Fully implemented	Colleges are using the form that includes the required certification from high school principals.
S-07-08	Uses of Matriculation Funds (Section 428) – Allowable Expenditures	We recommended that the District enhance current policies and procedures to ensure the accuracy of amounts paid to employees.	Not implemented	The District is enhancing current policies and procedures to help resolve payroll issues noted in the processing of salary disbursements.
S-07-09	California Work Opportunity and Responsibility to Kids (CalWORKS) Use of CalWORKS State Funds and CalWORKS Federal Temporary Assistance for Needy Families (TANF) Funds (Section 433) – Allowable Expenditures	We recommended that the District enhance current policies and procedures to ensure that amounts paid to employees are accurate and charged to the appropriate program.	Not implemented	The District concurs with this finding. The District is enhancing current policies and procedures to help resolve payroll issues noted in the processing of salary disbursements.
S-07-10	California Work Opportunity and Responsibility to Kids	We recommended the District enhance current policies and procedures to ensure that all required	Not implemented	The District provided documentation to comply with the supplement not supplant directive. Only CalWORKS

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	(CalWORKs) Use of CalWORKs State Funds and CalWORKs Federal Temporary Assistance for Needy Families (TANF) Funds (Section 433) – Supplement not Supplant	documentation to support any analysis is retained by its college campuses to support their compliance with program elements.		Program expenditures were tested. The college CalWORKs program was developed with specific activities that were either “different, specialized, enhanced, or increased” to serve a specific student population within the Colleges, in comparison to those services that were being offered in 1997 – 1998. Moreover, colleges are required to follow the state CalWORKs program plan and to expend funds within those specified program activities. The District will continue to work with the State Chancellor’s Office to obtain more detailed audit/compliance guideline to clarify the scope of auditing this program with respect to the supplement not supplant directive.
S-07-11	Minimum Conditions – Standards of Scholarship (Section 436) – Published Regulations	We recommended that the District enhance controls to ensure that all required information regarding standards of scholarship is included in its college campus catalogs.	Fully implemented	The required standards are included in all new publications.
S-07-12	Minimum Conditions – Standards of Scholarship (Section 436) –	We recommended that the District implement control processes and procedures to ensure that the remedial coursework limitations are	Partially implemented	The District concurs with this finding. The District must develop a mechanism for identifying such students and correcting inappropriate reporting. This

(Continued)

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Federal and State Findings

Year ended June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	Remedial Coursework Limitations	monitored.		process is to be implemented in 2009.
S-07-13	Minimum Conditions -- Standards of Scholarship (Section 436) -- Course Repetition	We recommended that the District implement policies and procedures to ensure that it does not claim courses for students that have exceeded the allowable repeat limits.	Partially implemented	The District concurs with this finding. District Admissions and Records will review procedures to ensure that repeats are appropriately reviewed at the colleges and that FTES is not claimed for those exceeding allowable limits. This process is to be implemented in 2009.
S-07-14	Student Fees -- Instructional Materials and Health Fees (Section 437) -- Instructional Materials Fees	We recommended the District provide additional training to its campuses to ensure that instructional material fees are recorded correctly and any documentation to support those fees be retained for the required retention period.	Not implemented	The District concurs with this finding. The District will implement procedures to ensure instructional material fees are recorded properly with the supporting documentation.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

### Prior Year Comments

Summarized below is the current status of all audit management letter comments reported in the prior year's report on audited basic financial statements and of any other as yet unresolved audit finding from previous years.

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
FS-07-01	Financial Statements Reported in Accordance with Government Standards – Payroll	We recommended that management perform internally or hire a qualified specialist to perform a detailed postimplementation review of the SAP-HR implementation to address business/system controls, SAP-HR security, and SAP-HR segregation of duties. The postimplementation review should take into account the following factors: Business/System Controls, SAP-HR Security and SAP-HR Segregation of Duties. We also recommend that management establish formal procedures and internal controls to ensure that payrolls are processed	Partially implemented	<p>New tools are being looked at that will address Segregation of Duties issues, and support security audit. Once the above tool are in place a system SOD audit can be initiated that will highlight and address issues.</p> <p>Management has implemented Mercury Quality Center along with change management Policy and Procedures for testing, reporting and Interface and Conversion Management for Data. The processes have been in place since 2007.</p> <p>Formal procedures and internal controls for payroll processing documentation and support manual do exist. More information is needed to determine what is missing.</p> <p>The District is evaluating new tools to assist in the management oversight of segregation of duties and access issues. A mini project has been completed that addressed the cleanup of key master data areas across the District. New and updated applications have been developed and deployed such as Personal Change Request that provide a technology for end-user to process data using a wizard tools for</p>

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

<u>Finding reference</u>	<u>Finding description</u>	<u>Recommendation</u>	<u>Current status</u>	<u>Explanation if not fully implemented</u>
		accurately. Further, we recommend that management retain manual supporting documentation until for payroll payments until the SAP-HR module controls are operating effectively.		accurate data entry. Union dues and its associated system and reports have been updated to better handle union due processing. Difficult one off type pay errors are reviewed on a case-by-case basis and addressed. Audit reports have been developed for the District's internal audit to use in review. Tightened security access procedures have been put in place across the ERP landscape that require management review and approval for granting system access.
FS-07-02	Financial Statements Reported in Accordance with Government Standards – Financial Reporting – Capital Assets	We recommended that the District design and implement internal controls to ensure that completed projects are appropriately classified in a depreciable capital asset category. We also recommend that management also implement processes and controls to determine that transactions are recorded and disclosed in accordance with U.S. GAAP.	Partially implemented	The District has developed a new interface program between Build LACCD and SAP Financials that moves data related to the procurement of assets from the Bond Program to The District. This program update brings expenditures related to plant construction and updates to the District's SAP Financial Accounting that includes detail general ledger mapping, and detail list of asset expenditures for new, in-process, and completed projects. This program was implemented in the second quarter of 2008.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
FS-07-03	Financial Statements Reported in Accordance with Government Standards – SAP Environment	We recommended that management design and implement adequate access control and change management procedures to help ensure that the District's business systems are adequately controlled and secured.	Partially implemented	Approvals are in place that currently require management to approve type and access for employees. This access is based on business roles and job duties. Access is requested and granted via electronic notification to the security team for processing by the appropriate manager. Other action plans currently under development or consideration are to implement security tools that will identify segregation of duties issues and key transaction codes for management oversight. Additional internal change logs have also been activated that for selected areas that record master data changes for later review. Also, new workflow processes have been implemented that alert and identify in a real time manner employee updates (termination, role\title, date extension\delimitation, and location changes) for the District's staff to Centralized District ERP Security, District IT (network, exchange, operations, and Retirement Staff) for alerts and processing of staff changes. The Business Intelligence System (aka BW) security is being updated to reflect a tightening of roles and responsibilities. SAP\R3 key access transactions are also being reviewed for update and revision for key risk transactions. SE16 and SA38 access are being removed and replaced with "z" transactions as appropriate. New procedures are in place for granting access as well. Also user profiles were

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

<u>Finding reference</u>	<u>Finding description</u>	<u>Recommendation</u>	<u>Current status</u>	<u>Explanation if not fully implemented</u>
FS-07-04	Financial Statements Reported in Accordance with Government Standards – Open Virtual Memory System Students Information System and Financial Aid Management System (SIS and FAMS Application)	We recommended that management design and implement adequate access control and change management procedures to help ensure that the District's business systems are adequately controlled and secured.	Partially implemented	<p>reviewed and access revoked where in appropriate.</p> <p>The file system in VMS links to the user account of the creators and editors of files. This feature enables us to easily determine when changes have been made and by whom, a critical requirement for establishing audit trails. By deleting the user account, we would lose the audit trail. Since disabling the account has the same effect as deletion of preventing unauthorized access, our policy has been and will remain to disable accounts rather than delete them.</p> <p>The Operations teams on each shift have worked together for many years. By running jobs on a single account, they are able to share responsibilities much more readily. Separating the accounts would significantly lower their productivity. The Operations team religiously keeps a log of jobs run, which mitigates the impact cited above. While the recommendation may be appropriate for a data center with high turnover, it would reduce our Operations team's effectiveness with no real gain in security or risk reduction. The same argument applies to the Software System Engineers in charge of System Administration.</p>

Since the implementation of the HP SuperDomes,  
(Continued)



# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
FS-07-05	Financial Statements Reported in Accordance with Government Standards – Access Controls to the Network	We recommended that management design and implement adequate access control procedures to help ensure that the District's business systems are adequately controlled and secured.	Partially implemented	<p>the Software Systems Engineering Group and the Systems and Programming Group have set in place a Change Management Procedure that is currently being followed to process any production moves through the SIS and FAMS applications landscape.</p> <p>User provisioning and de-provisioning workflow has been added to the SAP HR hiring/termination process. This will improve IT's efficiency and effectiveness when removing employees from systems after they have been terminated.</p> <p>Operations and Software Systems Engineering will implement sudo on unix systems and creating separate administrator accounts on Windows – based servers for staff members</p> <p>Some administrative accounts still require sharing. The Operations teams on each shift have worked together for many years. By running jobs on a single account, they are able to share responsibilities much more readily. Separating the accounts would significantly lower their productivity. The Operations team religiously keeps a log of jobs run, which mitigates the impact cited above. While the recommendation may be appropriate for a data center with high turnover, it would reduce our Operations team's effectiveness</p>

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

<u>Finding reference</u>	<u>Finding description</u>	<u>Recommendation</u>	<u>Current status</u>	<u>Explanation if not fully implemented</u>
				with no real gain in security or risk reduction.
				SAP Workflows have been developed and deployed. These workflows operate in a manner that sends out alert\notification to SAP ERP Centralized Security, District IT (operations, network, exchange) and Retirement units when an employee's status has changed (terminated, hired, location changes, role\title changes) and extend\delimit active dates, and contain key information that enables staff to perform system and hardware updates such as insure access to system and network has been updated to reflect the updated employee status.

# LOS ANGELES COMMUNITY COLLEGE DISTRICT

## Schedule of Prior Year Management Letter Comments

June 30, 2008

<b>Finding reference</b>	<b>Finding description</b>	<b>Recommendation</b>	<b>Current status</b>	<b>Explanation if not fully implemented</b>
FS-07-06	Financial Statements Reported in Accordance with Government Standards – Application-related Issues in Relation to Business Processes	We recommended that management conduct periodic reviews of both roles within the organization and of user access for the SAP system in order to remove user access that generates segregation of duties conflicts within the accounts payable, general ledger, tax, and payroll processes.	Partially implemented	It is the District's decision and state law to process and pay personnel for work done. The SAP Payroll system has been configured to process payroll with these decisions. If an account that has been assigned to an employee that does not have enough funds when payroll posting occurs – a program has been developed that categorizes these expenditures by location and types for the District's fund managers to review and reassign to the appropriate accounts. Most of the types of issues are caused by delays in updating accounts either for an assignment change or for a multiyear expenditure. For Grant programs, a new SAP application is being deployed that will allow the District to move to a multiyear funding model that will eliminate issues with delays in updating accounts on an annual basis. Other user accounts were reviewed and access changed or revoked where appropriate. The District's payroll system allows for salary encumbrance of personnel assignments for regular positions. The system does not place a hold on salary payment (payroll payments) due to insufficient budget since the District has a legal obligation to make the salary payment. This policy and process has been in place prior to SAP.

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

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OFFICE OF THE CHIEF FINANCIAL OFFICER / TREASURER  
JEANETTE L. GORDON

March 2, 2009

Mr. Michael Baldwin, Branch Chief  
Governor's Office of Emergency Services  
Local Assistance Monitoring Branch  
3650 Schriver Avenue  
Mather, CA 95655

04509

**RE: AUDITED BASIC FINANCIAL STATEMENTS, 2007-08**

Dear Mr. Baldwin,

Enclosed is a copy of the 2007-08 Audited Basic Financial Statements for the Los Angeles Community College District.

If you have any questions regarding this report, please call me at (213) 891-2090.

Cordially,

A handwritten signature in cursive script, appearing to read "Jeanette L. Gordon".

Jeanette L. Gordon  
CFO/Treasurer

ag

Enclosure

